交通銀行
BANK OF COMMUNICATIONS

交通銀行股份有限公司

Bank of Communications Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 03328)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors of Bank of Communications Co., Ltd. (the "**Bank**") is pleased to announce the audited consolidated results (the "**Annual Results**") of the Bank and its subsidiaries (the "**Group**") for the year ended 31 December 2011 (the "**Reporting Period**"), which have been prepared in accordance with the International Financial Reporting Standards (the "**IFRSs**") promulgated by the International Accounting Standards Board. The Board of Directors of the Bank (the "**Board**") and the Audit Committee of the Board have reviewed and adopted the Annual Results.

1. CORPORATE INFORMATION

1.1 Stock Exchanges on which shares of the Bank are listed:

A share: Shanghai Stock Exchange
H share: The Stock Exchange of Hong Kong Limited

1.2 Stock Name and Stock Code:

A share: Bank of Communications, 601328
H share: BANKCOMM, 03328

1.3 Secretary to the Board: Du Jianglong

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2. MAJOR FINANCIAL DATA AND INDICATORS

The major financial data and indicators of the Group as at 31 December 2011 prepared under the IFRSs are as follows:

Description	**2011**	2010	2009	2008	2007
Full year results					*(in millions of RMB)*
Net interest income	**102,601**	84,995	66,668	65,862	53,943
Profit before tax	**65,451**	49,954	38,301	35,953	31,242
Net profit (excluding non-controlling interests)	**50,735**	39,042	30,118	28,524	20,323
As at the end of the year					*(in millions of RMB)*
Total assets	**4,611,177**	3,951,593	3,309,137	2,678,249	2,105,524
Includes: loans and advances to customers	**2,561,750**	2,236,927	1,839,314	1,328,590	1,104,490
Total liabilities	**4,338,389**	3,727,936	3,144,712	2,532,649	1,976,872
Includes: customer deposits	**3,283,232**	2,867,847	2,372,055	1,865,815	1,555,599
Shareholder's equity (excluding non-controlling interests)	**271,802**	222,773	163,848	145,167	128,234
Per share					*(in RMB)*
Earnings per share (excluding non-controlling interest)[1]	**0.82**	0.66	0.53	0.51	0.37
Net assets per share (excluding non-controlling interests)	**4.39**	3.96	3.34	2.96	2.62
Major financial ratios					%
Return on average assets[2]	**1.19**	1.08	1.01	1.20	1.07
Return on average shareholders' equity[3]	**20.52**	20.20	19.49	20.87	18.85
Cost-to-income ratio[4]	**30.19**	32.11	32.63	31.74	34.38
Impaired loans ratio[5]	**0.86**	1.12	1.36	1.92	2.05
Provision coverage of impaired loans[6]	**256.37**	185.84	151.05	116.83	95.63
Capital adequacy indicators					%
Core capital adequacy ratio	**9.27**	9.37	8.15	9.54	10.27
Capital adequacy ratio	**12.44**	12.36	12.00	13.47	14.44

Notes:

1. Earnings per share of the prior years have been restated according to the IFRSs due to the bonus shares issued during the Reporting Period.
2. Calculated by dividing net profit of the Reporting Period by the average of total assets at the beginning and the end of the Reporting Period.
3. Calculated by dividing net profit (excluding non-controlling interests) of the Reporting Period by the average of shareholders' equity (excluding non-controlling interests) at the beginning and the end of the Reporting Period.
4. Refers to certain operating expenses as a percentage of certain net operating income.
5. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans and advances to customers before impairment allowances at the end of the Reporting Period.
6. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the Reporting Period.

3. SHAREHOLDINGS OF SHAREHOLDERS

(1) Shareholdings of the top 10 shareholders and of the top 10 shareholders not subject to sales restrictions (according to the Bank's register of members maintained at its share registrar)

The number of shareholders as at 31 December 2011	427,209	The number of shareholders as at the end of the month prior to the release date of the Annual Results	419,135

Shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of shares held	Number of shares held subject to sales restriction	Number of shares pledged or frozen[1]
Ministry of Finance of the People's Republic of China	State	26.52	16,413,353,049	—	Nil
HKSCC Nominees Limited[2]	Foreign-owned legal person	21.92	13,564,847,033	—	Unknown
The Hongkong and Shanghai Banking Corporation Limited[3]	Foreign-owned legal person	18.63	11,530,478,263	—	Nil
Capital Airports Holding Company	State-owned legal person	2.01	1,246,591,087	—	Unknown
Yingda International Holdings Corporation Limited	State-owned legal person	0.92	571,078,169	—	Unknown
Yunnan Hongta Group Company Limited	State-owned legal person	0.71	438,686,794	—	Unknown
Sinopec Finance Company Limited	State-owned legal person	0.61	375,461,733	—	Unknown
Shanghai Haiyan Investment Management Co., Ltd	State-owned legal person	0.60	368,584,978	—	Unknown
Aviation Industry Corporation of China	State-owned legal person	0.50	310,678,434	—	Unknown
Daqing Petroleum Administration Bureau	State-owned legal person	0.48	294,936,165	—	Unknown

Shareholdings of the top 10 shareholders not subject to sales restrictions

Name of shareholders	Number of shares held not subject to sales restrictions	Class of shares
Ministry of Finance of the People's Republic of China	12,618,353,049	RMB Ordinary Shares
	3,795,000,000	Overseas-Listed Foreign Shares
HKSCC Nominees Limited	13,564,847,033	Overseas-Listed Foreign Shares
The Hongkong and Shanghai Banking Corporation Limited	11,530,478,263	Overseas-Listed Foreign Shares
Capital Airports Holding Company	1,246,591,087	RMB Ordinary Shares
Yingda International Holdings Corporation Limited	571,078,169	RMB Ordinary Shares
Yunnan Hongta Group Company Limited	438,686,794	RMB Ordinary Shares
Sinopec Finance Company Limited	375,461,733	RMB Ordinary Shares
Shanghai Haiyan Investment Management Co., Ltd	368,584,978	RMB Ordinary Shares
Aviation Industry Corporation of China	310,678,434	RMB Ordinary Shares
Daqing Petroleum Administration Bureau	294,936,165	RMB Ordinary Shares

Details of connected relations or acting in concert among the above shareholders:

(1) The Bank is not aware of any connected relations among the above shareholders not subject to sales restrictions or whether they are parties acting in concert regulated in Administration of the Takeover of Listed Companies Procedures.

(2) The Bank is not aware of any connected relations among the top 10 shareholders not subject to sales restrictions and the top 10 shareholders or whether they are parties acting in concert.

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen.

2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares held by all institutional and individual investors who maintain an account with it as at 31 December 2011.

3. According to the Bank's register of members kept by Computershare Hong Kong Investor Services Limited, the Hongkong and Shanghai Banking Corporation Limited (the "**HSBC**") held 11,530,478,263 H shares of the Bank as at 31 December 2011. In addition, according to the disclosure of interests form filed with The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") by HSBC Holdings plc, HSBC beneficially held 11,779,697,178 H shares of the Bank as at 31 December 2011, representing 19.03% of the Bank's total share capital. (For details, please refer to (2) Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance").

(2) Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance

As at 31 December 2011, to the knowledge of the Bank's Directors, Supervisors and Chief Executive, the substantial shareholders and other persons (other than the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance (the "**SFO**") are as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	12,618,353,049[2]	Long position	38.58	20.39

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
National Council for Social Security Fund	Beneficial owner	7,027,777,777[3]	Long position	24.09	11.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,795,000,000[2]	Long position	13.01	6.13
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	11,779,697,178	Long position	40.37	19.03
	Interest of controlled corporations	16,253,342[4]	Long position	0.06	0.03
	Total:	11,795,950,520		40.43	19.06
HSBC Finance (Netherlands)	Interest of controlled corporations	11,795,950,520[5]	Long position	40.43	19.06
HSBC Bank plc	Interest of controlled corporations	63,250[6]	Long position	0.0002	0.0001
HSBC Holdings plc	Interest of controlled corporations	11,796,013,770[7]	Long position	40.43	19.06

Notes:

1. Long positions held other than through equity derivatives.

2. According to the information provided by the Ministry of Finance of the People's Republic of China (the "**MoF**"), the MoF held 3,795,000,000 H shares and 12,618,353,049 A shares of the Bank as at 31 December 2011, representing 6.13% and 20.39% of the total share capital of the Bank, respectively.

3. According to the information provided by the National Council for Social Security Fund (the "**SSF**"), SSF held 7,027,777,777 H shares of the Bank as at 31 December 2011, representing 11.36% of the total share capital of the Bank and all these shares were registered under the name of HKSCC Nominees Limited.

4. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to hold interest in the Bank's H shares (referred to as "**H Share**" in this section) held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to hold interest in the 16,253,342 H Shares held by its wholly-owned subsidiaries. Such 16,253,342 H Shares represent the aggregate of the 16,160,997 H Shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H Shares directly held by Hang Seng Bank (Trustee) Limited.

5. HSBC is wholly-owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly-owned by HSBC Asia Holdings (UK) Limited which is wholly-owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to hold interest in the 11,795,950,520 H Shares held by HSBC.

6. HSBC Trustee (C.I.) Limited holds 63,250 H Shares. HSBC Trustee (C.I.) Limited is wholly-owned by HSBC Private Bank (C.I.) Limited, which is wholly-owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly-owned by HSBC Europe (Netherlands) BV, which is in turn owned as to 94.90% by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to hold interest in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.

7. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Note 4, 5 and 6 and the SFO, HSBC Holdings plc is deemed to be interested in the 11,795,950,520 H Shares in which HSBC has an interest and the 63,250 H Shares in which HSBC Bank plc has an interest.

Save as disclosed above, to the knowledge of the Bank's Directors, Supervisors and Chief Executive, no person or corporation was recorded in the register of members required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2011.

4. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Group operation review

Recall the fiscal year of 2011, the complex and volatile economic environment around the globe and in China brought more uncertainties to commercial banks. The Group achieved favourable operating results through a number of initiatives, such as thoroughly analysing and assessing market changes, seizing opportunities in such volatile market, adhering to proactive and prudent management policies, and maintaining a good balance among business development, risk management and structural adjustment.

At the end of the Reporting Period, the Group's total asset increased by 16.69% from the beginning of the year to RMB4,611.177 billion. Customer deposits increased by 14.48% from the beginning of the year to RMB3,283.232 billion. Total outstanding balance of loans and advances to customers (before impairment allowances, same applies hereinafter unless otherwise stated) increased by 14.52% from the beginning of the year to RMB2,561.750 billion. Net profits increased by 29.95% as compared with the prior year to RMB50.735 billion. Average return on assets and annualised average return on shareholders' equity was 1.19% and 20.52%, representing an increase of 0.11 and 0.32 percentage point respectively from the prior year. Net interest spread and net interest margin increased by 10 and 13 basis points, as compared with the prior year, to 2.49% and 2.59% respectively. The impaired loans ratio decreased by 0.26 percentage point to 0.86% as compared with the beginning of the year, while the provision coverage ratio increased by 70.53 percentage points as compared with the beginning of the year to 256.37%. The Group's capital adequacy ratio and core capital adequacy ratio reached 12.44% and 9.27% respectively, which are in compliance with the relevant regulations.

(2) Business review

Rapid growth in core business leading the overall strength to a new level

Facing the complex market environment, the Group continued to adhere to its proactive and prudent management policies as it focused on accelerating the development of various business lines. Battling the declining growth of money supply in the market, the Group strived to develop corporate customers, thoroughly performed market analysis, grasped sales opportunities related to industry chain and city circle, and retained customer deposits within the Group. Meanwhile, the Group introduced various products to individual customers for better allocation of their assets, which directly strengthened its customer base and enhanced customer loyalty. At the end of the Reporting Period, corporate deposits increased by 15.01% from the beginning of the year to RMB2,248.317 billion and individual deposits increased by 13.72% from the beginning of the year to RMB1,030.605 billion. Domestic assets-under-management (AUM) balance for individual customers increased by 14.24% from the beginning of the year to RMB1,505.165 billion. The Group's credit portfolio showed a steady and balanced growth. Total loans to corporate customers increased by 12.83% from the beginning of the year to RMB2,052.443 billion and total loans to individual customers increased by 21.87% from the beginning of the year to RMB509.307 billion. At the same time, the Group placed high emphasis on loan volume control and lending structure optimisation, with continuous improvement in its credit policy and implementation measures on quantification and quota management. The new loans were primarily directed to strategic emerging industries, leading service industries and public welfare and consumption. During the Reporting Period, loans made to the encouraged industries such as power, port and shipping, as well as the ship-financing industry increased by 18.41% and 38.03%, which are 5.58 percentage points and 25.20 percentage points higher than the increase in corporate lending respectively. Individual loans accounted for 19.88% of total lending portfolio, representing an increase of 1.20 percentage points from the beginning of the year. Loans to domestic small to medium and micro enterprises accounted for 39.39% of total lending portfolio. In financial market business, the Group conducted timely analysis on macroeconomic trends, responded to changes in market interest rates and achieved reasonable allocation of its capital and assets. In addition, the RMB and foreign exchange trading business continued to remain active. The Bank had a total transaction volume reaching RMB11,640 billion for its trading business in the interbank market. The Group was awarded the Best Spot Market Maker in the interbank foreign exchange market as its total transaction volume amounted to USD556.447 billion for the year. Total transaction volume in the proprietary gold trading business increased by 44.02% as compared with the prior year to 416.76 tonnes.

Additionally, the Group's other business lines made positive development over the year. Off-shore assets ranked the top in the banking industry, representing an increase of 188.67% from the beginning of the year to USD6.469 billion. Despite the weak capital market, the Group's custody business experienced a growth of 18.98% from the beginning of the year to RMB839.737 billion. In particular, its businesses in trust, insurance and private equity were among the fastest growing areas of the Bank. Total transaction volume for international settlement reached USD300 billion, representing an increase of 24.34% from the beginning of the year. The Group further expanded its cross-border RMB settlement business from trade settlement to other services of investment and financing nature, with total transaction volume increased by 2.3 times as compared with the prior year to RMB158.912 billion. Total business volume for domestic letter of credit increased by 4.76 times as compared with the prior year.

The Group's comprehensive strength has been improved to a new level, with continuous development of its various businesses. The Group once again made into the list of Fortune 500. Based on its operating income, the Group ranked No. 398, leaping forward by 42 positions from prior year. In addition, the Group ranked No. 35 in terms of tier-one capital among the global top 1000 banks by The Banker magazine, moving 14 positions forward as compared with the prior year. The Group also ranked No. 96 in Forbes Global Enterprises 2000. In the "Report on the Competitiveness of China's Commercial Banks" published by The Chinese Banker magazine, the Group ranked No.2 for three consecutive years, in terms of core competitiveness among Chinese commercial banks.

Further improvements in profitability and business development

Benefiting from the continuous improvement of its business development, the Group's net operating income experienced rapid growth with an increase of 22.01% as compared with the prior year. Together with continued improvement in its operating efficiency, the Group achieved significant increase in profitability. During the Reporting Period, the Group's net profit surpassed RMB50 billion for the first time, increased by 29.95% to RMB50.735 billion. Average return on assets (ROAA) and average return on shareholders' equity (ROAE) were 1.19% and 20.52%, representing an increase of 0.11 and 0.32 percentage point respectively.

With regard to interest income, the Group's net interest income increased by 20.71% as compared with the previous year to RMB102.601 billion. On one hand, the growth of net interest income has been driven by increases in interest-bearing assets. During the Reporting Period, the Group's average interest-bearing assets increased by RMB505.434 billion or 14.62% to RMB3,961.600 billion as compared with the prior year. On the other hand, it was driven by the widening interest spread. Since the fourth quarter of 2010, with the multiple increments in prime interest rates for deposits and loans by the People's Bank of China and the enhanced pricing management, net interest spread and net interest margin increased by 10 and 13 basis points, as compared with the prior year to 2.49% and 2.59% respectively.

To further improve its income structure, the Group continued with its transformation and the development of its fee-based business. During the Reporting Period, the Group's net fee and commission income increased by 35.02% as compared with the prior year to RMB19.549 billion, with the ratio of net fee and commission income to net operating income increased by 1.48 percentage points to 15.30% as compared with the prior year. Due to rapid development in investment banking services, the Group was successful in underwriting the first local government bond – the Shanghai Municipal Government Bond. Its investment banking products also include financial bonds, subordinated bonds and off-shore bonds. The Group's income from investment banking activities increased by 52.89% as compared with prior year to RMB6.276 billion. The Group was also awarded the Best Investment Bank by CFO World and the Best Bank in Bond Underwriting for three consecutive years by Securities Times. Because of the continuous efforts in growing its credit card business, the Group made RMB7.075 billion in annual fee and commission income from its bank card business, an increase of 36.24% as compared with the prior year. Total number of credit cards issued increased by 5.63 million from the beginning of the year to 22.23 million, with accumulated spending volume increased by 57% to RMB360.8 billion.

While promoting the growth in net operating income, the Group dedicated itself towards better cost management and improved operating efficiency. During the Reporting Period, although the Group's operating cost increased by 15.24% as compared with prior year to RMB37.901 billion, the result was 6.77 percentage points lower than the increase in net operating income. The cost-to-income ratio also decreased by 1.92 percentage points as compared with the prior year to 30.19%.

New breakthroughs in implementing the "BoCom Strategy"

The Group continued to implement its development strategy of becoming "a first class listed universal banking group focusing on international expansion and specialising in wealth management" ("BoCom Strategy"), with significant achievements reached together with improvements made to the Group's overall strength and competitive advantages.

During the year, the Group's international expansion achieved a historical breakthrough. Adhering to its business principles of "following the national strategy, following customers, maximising the interest of shareholders, and implementing service capabilities", the Group accelerated its development pace of overseas branches. During the Reporting Period, the Group successfully set up Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch and a subsidiary bank in the United Kingdom. The Taipei Branch was also granted the approval of preparation for opening. The Group's overseas operation has expanded to cover continents of Asia, Europe, America and Oceania. The international expansion strategy "building an Asia-Pacific focused overseas network extended to Europe and America" achieved further advancement. At the end of the Reporting Period, total assets of overseas branches reached RMB331.902 billion, an increase of 38.37% as compared with the beginning of the year. Net profits contributed by overseas branches increased by 38.81% as compared with the prior year to RMB1.756 billion.

The Group made notable progress in its business integration, with synergies across multiple business lines revealed gradually. To enhance its overall financial service capabilities, the Group leveraged its domestic and overseas platforms such as Bank of Communications Finance Leasing Co., Ltd, Bocom International Holdings Co., Ltd. and Bank of Communications International Trust Co., Ltd., to offer an integrated set of onshore and offshore products and services to customers. During the Reporting Period, the Group's subsidiaries, over which the Group had significant control (except for the subsidiary bank in the United Kingdom) generated net profits of RMB1.080 billion. In particular, Bank of Communications Finance Leasing Co., Ltd. made outstanding breakthroughs in its new business model, which includes the practice of operating lease, domestic and overseas SPV, manufacturing leasing and small to medium and micro enterprises leasing, and achieved diversification in its business. In terms of the number of IPO projects completed by Bocom International Holdings Co., Ltd. as a book runner, it was ranked No. 1 among the five Chinese investment banks affiliated to listed Chinese banks in Hong Kong. Meanwhile, Bocom International Holdings Co., Ltd. ranked No. 2 in terms of total proceeds from IPOs.

Guided by the "BoCom Strategy", the Group actively established its unique features and brand image in wealth management. During the Reporting Period, the Group successfully published "Bank of Communications China Wealth Management Market Index", and held the "Outstanding Chinese Entrepreneurs Wealth Management Summit", "Bank of Communications Top 100 Chinese Enterprises Forum", "OTO Wealth Expo", and "2011 World Snooker Shanghai OTO Master". These channels effectively built a platform for communication between the Bank and those exceptional private enterprises, large corporations and high-end individual customers. The Group also introduced the customer payment referral system (PARS) in building communication bridges between banks. Seizing the opportunities brought by the wealth management needs of domestic and overseas customers, the Group took advantage of its international and integrated platform to provide better services to its customers through innovative channels and products. In addition, electronic banking was introduced to provide professional wealth management services to families to help them consolidate their available funds. Through the model "OTO customer manager + small enterprise customer manager + industry expert", the Group explored and established the OTO website in providing one-stop professional services to entrepreneurs. The image "Bank of Communications, Your Wealth Management Bank" was further highlighted. The Group won the "Best Cash Management Local Bank in China", for three consecutive years by AsiaMoney. The Group continued to optimise its customer structure. At the end of the Reporting Period, the number of corporate customers increased by 38.4 thousands, of which, the number of mid-to-high end "Win to Fortune" corporate customers increase by 17.3% and the number of "Win to Fortune" cash management customers increased by 51.3% as compared with the prior year. The number of private banking customers and OTO customers increased by 42.38% and 29.42% respectively from the beginning of the year.

Improved asset quality and new progress in enterprise risk management

Since 2011, the multiple effects of European sovereign debt crisis, weak global economic recovery and the complex Chinese macroeconomic environment, set higher requirements in risk management for commercial banks. The Group continued with its prudent operation and enhanced its enterprise risk management framework. Furthermore, the Group improved its risk management decision-making system and operating mechanism at the Head Office level, and established Risk Management Committee framework at the branch level. At the same time, the Group further standardised its risk management procedures, promoted innovation in management tools, optimised risk management process, and made improvements to the timeliness, focus and accuracy of risk management practice.

Credit risk management has been continuously strengthened. The Group constantly improved its credit policies and set up the multi-dimensional system covering industries, regions and customers with total coverage in the respective areas exceeding 90%. Credit management procedure was revised, emphasising on more detailed classification of asset quality. The Group also implemented new regulations on loans while strengthening its post-loan management and close monitoring on the loan direction. Adhering to its basic principle "Complete Procedure, Key Steps, Standardisation", the Group developed an integrated post-loan management tool. In targeting high risk areas and emergency incidents, the Group continued to strengthen its special reviews and risk prevention system. During the Reporting Period, total loans made to the highly polluting, energy-intensive sectors and sectors with redundant capacity decreased by RMB6.79 billion as compared with the beginning of the year, and the percentage of real estate loans decreased by 0.20 percentage point.

Market risk management strategy has been gradually implemented. The Group continued its efforts to improve its management capabilities, with proactive adjustment to asset allocation, preliminary establishment of level classification and complete coverage of limit management system on market risk. The liquidity gap stress testing and liquidity contingency plan were implemented subsequently.

Operational risk management has maintained its development. The Group performed in-depth analysis on risk event data to build a solid foundation in operational risk management. The case prevention mechanism and system support were further strengthened. In promoting centralised management of risk cases, the Group continued to organise its "Internal Controls and Case Prevention Year" activities.

Capital risk management has been intensively applied. The Group continuously strengthened the application of capital constraints, and promoted its business development towards low capital consumption. Meanwhile, the Group undertook timely actions in capital replenishment, and successfully issued subordinated bonds of RMB26 billion. At the end of the Reporting Period, the Group's capital adequacy ratio increased by 0.08 percentage point from the beginning of the year to 12.44%, which effectively enhanced its risk prevention capability.

In addition, the Group has gradually strengthened its cross-market, cross-border and consolidated risk management capabilities by expanding its risk monitoring and control over its subsidiaries and consolidated financial statements process, further optimising the management of internal transactions and related party transactions. The Group also continuously performed daily monitoring and prevention of cross-market and cross-border risks as well as routine monitoring and evaluation of country risk. The risk measurement system and measurement verification system were gradually improved and its compliance with the New Basel Capital Accord standards has made great progress.

The Group's asset quality continued to improve as a result of the further strengthening of its enterprise risk management. At the end of the Reporting Period, the Group achieved a credit rating of A by three international credit rating agencies. The Group's impaired loans balance decreased by RMB3.002 billion or 12.01% from the beginning of the year to RMB21.986 billion, while the impaired loans ratio declined by 0.26 percentage point from the beginning of the year to 0.86%. The provision coverage ratio increased by 70.53 percentage points from the beginning of the year to 256.37%.

Strong product innovation to enhance service quality

The Group follows the concept of "One Bank, One Client", constantly monitors capital movements and seeks potential clients in competitive market. In order to promote product innovation, the Group continually explores new channels, products, systems and tools that optimise the service process and improve customer service experience. In line with the "client-focused, market-driven, service-oriented" product innovation process, the Group strives to provides diversified services to its customers. In addition, the Group acquired the gold import permit from the People's Bank of China, established sales and repurchases centres of precious metal in both Nanjing and Shanghai to provide one-stop services for precious metal exhibition, as well as sales and repurchase. Furthermore, the Group launched global cash management services and helped overseas enterprises achieve centralised control of both domestic and foreign accounts with the bank. In the meantime, the Group broke the corporate and private online banking boundaries, introduced both corporate and personal online banking services, including self-service account opening system, mobile office, and privileged corporate account. Also, the Group promoted its online lending services — "e-financing" and provided segmented services to meet middle to high-end customers demands such as "OTO e-financing" to enhance customer loyalty. Last but not least, the Group enhanced its credit card selling process and strengthened its management on sales marketing that resulted in better risk control, more efficient management, and lower cost.

While promoting the product and service innovation, the Group has been actively exploring a new model of channel management to improve operational efficiency and service quality. As the channel network was further built up, the Group accelerated the process of establishing new branches and adjusting existing branches. As a strategic investor, the Group initiated the establishment of the Bank of Tibet to reach "full coverage" of service network in the domestic provincial administrative regions. Xinjiang Shihezi Rural Bank commenced operation on schedule and the preparation of Qingdao Laoshan Rural Bank was in good progress. At the end of the Reporting Period, the Group newly set up 28 sub-branches under provincial jurisdiction and 61 new outlets, relocated 23 sub-branches across cities and counties and improved the service coverage ratio to 52%. In the meantime, the Group focused on the development of digital channel which accelerated the online banking development. The Group has provided the mobilised financial services with full coverage of major telecommunication companies and enhanced features in self-service, remote access, and e-commerce, etc. The Group also introduced several self-service devices including automatic card-issuing machines, self-service bill devices, new self-service smart and mobile banking terminal applications. Based on these new features, the Group took one step further to streamline its services into a self-service transaction system supplemented by in-person branch services to support the sales transformation initiative. During the Reporting Period, the Group added 4,618 self-service devices, representing a 38.5% increase from the previous year; the volume of self-service banking transactions increased by 29.6% to RMB866.3 billion. The channel diversion rate of e-banking services increased by 9.27 percentage points from the prior year to 66.44%.

(3) Financial statement analysis

1. Income Statement Analysis

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB15.497 billion or 31.02% as compared with the prior year to RMB65.451 billion. Profit before tax was derived mainly from net interest income and net fees and commission income.

The table below illustrates selected items which make up the Group's profit before tax for the year indicated:

(in millions of RMB)

	2011	2010
Net interest income	**102,601**	84,995
Net fee and commission income	**19,549**	14,479
Impairment allowances	**(12,479)**	(12,246)
Profit before tax	**65,451**	49,954

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by RMB17.606 billion as compared with the prior year to RMB102.601 billion. This accounted for 80.29% of the Group's net operating income and was a major component of net operating income.

The table below illustrates the average daily balances, associated interest income and expenses, and average yield or average cost of the Group's interest-earning assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2011			For the twelve months ended 31 December 2010		
	Average Balance	**Interest income/ (expense)**	**Average yield/(cost) ratio (%)**	Average Balance	Interest income/ (expense)	Average yield/(cost) ratio (%)
Assets						
Balances with central bank	**602,978**	**9,336**	**1.55**	451,052	6,855	1.52
Due from other banks and financial institutions	**208,271**	**7,092**	**3.41**	211,004	4,424	2.10
Loans and advances to customers and receivables	**2,412,662**	**147,162**	**6.10**	2,067,067	106,056	5.13
Of which:						
Corporate loans and receivables	**1,896,631**	**115,072**	**6.07**	1,595,373	82,984	5.20
Personal loans	**425,359**	**26,148**	**6.15**	338,765	18,701	5.52
Discount bills	**90,672**	**5,942**	**6.55**	132,929	4,371	3.29
Investment securities	**787,230**	**27,282**	**3.47**	777,937	24,570	3.16
Total interest-earning assets	**3,961,600**[3]	**188,908**[3]	**4.77**	3,456,166[3]	140,901[3]	4.08
Total non-interest earning assets	**185,248**			157,646		
TOTAL ASSETS	**4,146,848**[3]			3,613,812[3]		
Liabilities and shareholders' equity						
Due to customers	**2,929,032**	**54,396**	**1.86**	2,572,046	36,628	1.42
Of which:						
Corporate deposits	**2,032,440**	**38,649**	**1.90**	1,709,519	24,710	1.45
Personal deposits	**896,592**	**15,747**	**1.76**	862,527	11,918	1.38
Due to other banks and financial institutions	**834,421**	**31,449**	**3.77**	723,292	18,220	2.52
Debts issued and others	**70,989**	**2,426**	**3.42**	59,540	2,062	3.46
Total interest-bearing liabilities	**3,784,901**[3]	**86,307**[3]	**2.28**	3,303,984[3]	55,906[3]	1.69
Shareholders' equity and non-interest bearing liabilities	**361,947**			309,828		
TOTAL LIABILIITES AND SHAREHOLDERS' EQUITY	**4,146,848**[3]			3,613,812[3]		
Net interest income		**102,601**			84,995	
Net interest spread[1]			**2.49**[3]			2.39[3]
Net interest margin[2]			**2.59**[3]			2.46[3]
Net interest spread[1]			**2.56**[4]			2.46[4]
Net interest margin[2]			**2.66**[4]			2.53[4]

Notes:

1. This ratio represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities.

2. This ratio represents the net interest income to total average interest-earning assets.

3. This eliminates the impact of wealth management products.

4. This eliminates the impact of wealth management products and takes into account the tax exemption on the interest income from investments in Government bonds.

During the Reporting Period, the Group achieved a steady increase in its net interest margin and thus the net interest income increased significantly. The Group's net interest spread and net interest margin increased by 10 basis points and 13 basis points as compared with the prior year to 2.49% and 2.59% respectively. The reasons that the gap between net interest spread and net interest margin is widened are: (1) since the fourth quarter of 2010, the Central Bank has raised the benchmark deposit and lending interest rates multiple times and the impact of the increase in interest rates has been reflected gradually during the Reporting Period; (2) the Group has further improved its pricing capability; (3) the Group has optimised its asset-liability structure. Therefore, average yield of interest earning assets increased by 69 basis points while average cost of interest-bearing liabilities increased by 59 basis points, as compared with the prior year.

The table below illustrates the impact of changes in volume and interest rates on the Group's interest income and interest expense. Changes indicated are based on the changes in average daily balance and interest rates on interest-earning assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

	Comparison between 2011 and 2010 Increase/(decrease) due to		
	Balance	**Interest rate**	**Net increase/ (decrease)**
Interest-earning assets			
Balances with central banks	2,309	172	2,481
Due from other banks and financial institutions	(57)	2,725	2,668
Loans and advances to customers and receivables	17,729	23,377	41,106
Investment securities	294	2,418	2,712
Changes in interest income	20,275	28,692	48,967
Interest-bearing liabilities			
Customer deposits	5,069	12,699	17,768
Due to other banks and financial institutions	2,800	10,429	13,229
Debts issued and others	396	(32)	364
Changes in interest expense	8,265	23,096	31,361
Changes in net interest income	12,010	5,596	17,606

During the Reporting Period, the Group's net interest income increased by RMB17.606 billion as compared with the previous year. Of which, the increase of RMB12.010 billion was due to changes in the average balances of interest-earning assets and interest-bearing liabilities, while the increase of RMB5.596 billion was due to changes in the average rate of return and average cost ratio.

① **Interest income**

During the Reporting Period, the Group's gross interest income increased by RMB48.967 billion or 34.51% as compared with the prior year to RMB190.872 billion.

A. Interest income from loans and advances to customers and receivables

Interest income from loans and advances to customers and receivables contributed the most to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB41.106 billion or 38.76% as compared with the prior year, to RMB147.162 billion, largely due to the increase in loans and advances to customers and receivables, as well as the advancement of pricing ability on credit services.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB2.712 billion or 11.04% as compared with the prior year, to RMB27.282 billion. The Group managed to seize favourable opportunities for investments, strengthened its investment operations and optimised its investment asset structure. This, in turn, helped to maintain the return on investment securities at a relatively high level of 3.47%.

C. Interest income from cash and balances with central banks

Cash and balances with central banks mainly include statutory reserves and excess reserves. During the Reporting Period, average cash and balances with central banks increased by RMB151.926 billion or 33.68% as compared with the previous year, which lead to interest income from cash and balances with central banks reaching RMB9.336 billion, an increase of RMB2.481 billion from the prior year. The growth of the statutory reserve was due to the increase in cash and balances in deposit reserves as a result of the increase in customer deposits and the multiple upward revisions to the deposit reserve ratio during the year.

D. Interest income due from other banks and financial institutions

Total interest income due from other banks and financial institutions increased by RMB2.668 billion as compared with the prior year to RMB7.092 billion. This was mainly driven by the Central Bank raising the benchmark deposit and lending interest rates, and an increase of 131 basis points in average return on income due from other banks and financial institutions.

② **Interest expense**

During the Reporting Period, the Group's interest expense increased by RMB31.361 billion or 55.11% as compared with the prior year to RMB88.271 billion.

A. Interest expense on balance due to customers

Customer deposits is the Group's main source of funding. During the Reporting Period, interest expense on customers' deposits increased by RMB17.768 billion or 48.51% as compared with the prior year to RMB54.396 billion. This accounted for 61.62% of total interest expense. The increase in interest expense on customer deposits is mainly due to the increase in the size of customer deposits as well as the impact of the increase of the benchmark deposit and lending interest rates since the fourth quarter of 2010.

B. Interest expense on balance due to other banks and financial institutions

During the Reporting Period, interest expense on amounts due to other banks and financial institutions increased by RMB13.229 billion or 72.61% as compared with the prior year to RMB31.449 billion. This was mainly due to the 15.36% increase in average balance of amounts due to other banks and financial institutions as compared with the previous year. At the same time, the average cost of funding had increased by 125 basis points due to the increase in interest rates in the domestic money market.

C. Interest expense on debts issued and others

During the Reporting Period, interest expense on debts issued and other interest bearing liabilities increased by RMB0.364 billion as compared with the prior year to RMB2.426 billion. The average cost of funding decreased from 3.46% in previous year to 3.42%.

(3) Net fee and commission income

Net fee and commission income is a major component of the Group's net operating income. During the Reporting Period, the Group continuously accelerated its product and service innovation and moved towards a business model with diversified revenue streams from one based on interest spread. During the Reporting Period, the Group's net fee and commission income increased by RMB5.070 billion or 35.02% as compared with the prior year to RMB19.549 billion. Overall, this accounted for 15.30% of net operating income which increased by 1.48 percentage points as compared with the prior year. Investment banking, credit cards and settlement services have been the main growth areas of the Group's fee-based business.

The table below illustrates the major components of the Group's net fee and commission income for the periods indicated:

	(in millions of RMB)	
	2011	2010
Settlement and agent service	**2,053**	1,392
Bank card	**7,075**	5,193
Investment banking	**6,276**	4,105
Guarantee and commitment	**1,894**	1,456
Management service	**3,170**	2,640
Custodian service	**1,611**	2,049
Others	**385**	241
Total fee and commission income	**22,464**	17,076
Less: Fee and commission expense	**(2,915)**	(2,597)
Net fee and commission income	**19,549**	14,479

Commission income on settlement services increased by RMB0.661 billion or 47.49% as compared with the prior year to RMB2.053 billion. The increase is mainly due to the increase of agency services commission income.

Bank card related fee income increased by RMB1.882 billion or 36.24% from the prior year to RMB7.075 billion. The increase is mainly due to the increase in card issuance and spending as well as higher transaction volume at self-service machines.

Income from investment banking increased by RMB2.171 billion or 52.89% as compared with the prior year to RMB6.276 billion. The increase is mainly due to the relatively rapid growth in the various types of investment banking services.

Guarantee and commitment commission income increased by RMB0.438 billion or 30.08% from the prior year to RMB1.894 billion. The increase is mainly due to the increase in bank acceptances and letter of credits.

Commission income on custodian service increased by RMB0.53 billion or 20.08% as compared with the prior year to RMB3.170 billion. This is due to an increase in the size of the asset in custody and rapid growth of wealth management products services.

Commission income on sales of investment funds decreased by RMB0.438 billion or 21.38% from the prior year to RMB1.611 billion. The decrease is mainly due to a decrease in fund sales and sales on World EXPO tickets as compared with the prior year.

(4) Operating costs

The Group continuously strengthened its cost management. During the Reporting Period, the Group's operating cost increased by RMB5.012 billion or 15.24% to RMB37.901 billion, 6.77 percentage points lower than the increase in net operating income. The cost-to-income ratio decreased by 1.92 percentage points as compared with the previous year to 30.19%, representing further enhancement of operating efficiency.

(5) Impairment allowances

During the Reporting Period, the Group's impairment allowances on loans increased by RMB0.233 billion from the prior year to RMB12.479 billion, and comprised of (1) an increase in collectively assessed allowances by RMB4.276 billion to RMB13.376 billion; (2) a decrease in individually assessed allowances by RMB4.043 billion from the prior year to RMB0.897 billion, which was mainly due to the decrease of impaired loan of the Group. During the Reporting Period, credit-to-cost ratio decreased by 0.06 percentage point from the prior year to 0.49%.

(6) Income tax

During the Reporting Period, the Group's income tax expense increased by RMB3.852 billion or 35.73% as compared with the prior year to RMB14.634 billion. The effective tax rate of 22.36%, which is lower than the statutory tax rate of 25%, was due to the exemption of interest income from government bonds held by the Group pursuant to the relevant tax provisions.

The table below illustrates the Group's current tax and deferred tax for the periods indicated:

(in millions of RMB)

	2011	2010
Current tax	**15,221**	11,752
Deferred tax	**(587)**	(970)

2. *Analysis on Major Balance Sheet Items*

(1) Assets

As at the end of the Reporting Period, the Group's total assets was RMB4,611.177 billion, representing an increase of RMB659.584 billion or 16.69% from the beginning of the year.

The table below illustrates the outstanding balances (after impairment allowances) of the principal components of the Group's total assets and their proportion to the total assets as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**2,505,385**	**54.33**	2,190,490	55.43
Investment securities	**799,946**	**17.35**	809,820	20.49
Cash and balances with central banks	**736,999**	**15.98**	586,554	14.84
Due from other banks and financial institutions	**443,240**	**9.61**	262,976	6.65
Total assets	**4,611,177**		3,951,593	

① Loans and advances to customers

During the Reporting Period, the Group reasonably controlled the volume, direction and pace of credit disbursements, which brought balanced and smooth increase in loans. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB324.823 billion or 14.52% from the beginning of the year to RMB2,561.750 billion, among which the increase in RMB loans to domestic banking institutions amounted to RMB276.280 billion or 13.81% from the prior year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrading of industrial structure and the development of real economy, as well as vigorously promoted the optimisation of its business structure. The table below illustrates the distribution of the Group's loans and advances by industry as of the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**51,040**	**1.99**	40,223	1.80
Manufacturing				
— Petroleum and chemical	**103,193**	**4.03**	93,525	4.18
— Electronics	**52,532**	**2.05**	44,993	2.01
— Steel, smelting and processing	**42,547**	**1.66**	45,568	2.04
— Machinery	**89,785**	**3.50**	68,911	3.08
— Textile and clothing	**34,996**	**1.37**	29,560	1.32
— Other manufacturing	**188,906**	**7.37**	155,663	6.96
Electricity, gas and water production and supply	**141,316**	**5.52**	138,707	6.20
Construction	**80,621**	**3.15**	68,337	3.05
Transportation, storage and postal service	**329,566**	**12.86**	307,422	13.74
IT services and telecommunications	**10,195**	**0.40**	9,618	0.43
Wholesale and retail	**290,874**	**11.35**	214,588	9.59
Accommodation and catering	**21,009**	**0.82**	15,746	0.70
Financial institutions	**22,995**	**0.90**	37,108	1.66
Real estate	**158,688**	**6.19**	142,868	6.39
Services	**160,039**	**6.25**	131,496	5.88
Water conservancy, environmental and other public services	**151,161**	**5.90**	163,992	7.33
Education	**32,647**	**1.27**	30,192	1.35
Others	**40,136**	**1.58**	23,411	1.06
Discounted bills	**50,197**	**1.96**	57,074	2.55
Total corporate loans	**2,052,443**	**80.12**	1,819,002	81.32
Mortgage loans	**312,897**	**12.21**	268,240	11.99
Credit card advances	**74,194**	**2.90**	43,561	1.95
Medium-term and long-term working capital loans	**51,060**	**1.99**	31,616	1.41
Short-term working capital	**37,495**	**1.46**	28,740	1.28
Car loans	**5,632**	**0.22**	6,607	0.30
Others	**28,029**	**1.10**	39,161	1.75
Total personal loans	**509,307**	**19.88**	417,925	18.68
Gross amount of loans and advances to customers before impairment allowances	**2,561,750**	**100.00**	2,236,927	100.00

As at the end of the Reporting Period, the Group's corporate loans increased by RMB233.441 billion or 12.83% from the beginning of the year to RMB2,052.443 billion. Corporate loans were mainly concentrated in the four industries of manufacturing, transportation, storage and postal service, wholesale and retail services, which collectively accounted for 62.97% of total corporate loans.

As at the end of the Reporting Period, personal loans increased by RMB91.382 billion or 21.87% from the beginning of the year to RMB509.307 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 1.20 percentage points from the beginning of the year to 19.88%.

Loan concentration by borrowers

As at the end of the Reporting Period, lending to the largest single client of the Group accounted for 2.21% of the Group's net assets; total loans made to the top 10 clients accounted for 17.49% of the Group's net assets, which are in compliance with the regulatory requirements.

The table below illustrates the loan balances to the top 10 single borrower of the Group as at the date indicated:

(in millions of RMB unless otherwise stated)

		As at 31 December 2011	
	Type of industry	**Loan balance**	**Percentage of total loans and advance (%)**
Customer A	Transportation, storage and postal service	7,795	0.31
Customer B	Transportation, storage and postal service	7,425	0.29
Customer C	Transportation, storage and postal service	6,990	0.27
Customer D	Transportation, storage and postal service	6,326	0.25
Customer E	Real estate	6,000	0.23
Customer F	Services	5,730	0.22
Customer G	Transportation, storage and postal service	5,587	0.22
Customer H	Transportation, storage and postal service	5,400	0.21
Customer I	Electricity, gas and water production and supply	5,270	0.21
Customer J	Services	5,108	0.20
Total		**61,631**	**2.41**

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, loans and advances to customers in these three regions accounted for 32.43%, 22.21% and 8.08% of the Group's total loans, increased 17.16%, 8.33% and 12.90% respectively from the beginning of the year.

Loan quality

The Group continuously improved the quality of its loans. As at the end of the Reporting Period, the impaired loans ratio dropped by 0.26 percentage point from the beginning of the year to 0.86%. The provision coverage of impaired loans increased by 70.53 percentage points from the beginning of the year to 256.37%, representing further strengthening of its risk prevention capacity.

The table below illustrates certain information on the Group's impaired loans and loans overdue by more than 90 days as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2011	31 December 2010
Impaired loans	**21,986**	24,988
Loans overdue by more than 90 days	**15,228**	16,297
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**0.86**	1.12

Loan customer structure

As at the end of the Reporting Period, based on the Bank's internal rating system for corporate customers, loans to customers of class 1 to class 8, which comprises high quality customers, amounted to 93.24% of the total loans and advances to customers and increased by 1.14 percentage points from the beginning of the year; loans to customers of class 9 to class 12 amounted to 4.48% of total loans and advances to customers and decreased by 0.58 percentage point from the beginning of the year; loans to customers of class 13 to class 15 amounted to 0.99% of total loans and advances to customers and decreased by 0.37 percentage point from the beginning of the year.

② **Investment securities**

As at the end of the Reporting Period, the Group's investment securities decreased by RMB9.874 billion or 1.22% from prior year to RMB799.946 billion. Return on investment securities reached a satisfactory level of 3.47%, profiting from the reasonable allocation and continuous optimisation of investment structure.

Distribution of the Group's investment securities

The table below illustrates the distribution of the Group's investment securities by financial asset classification and by type of issuers as of the dates indicated:

— By financial asset classification

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss	**42,837**	**5.35**	41,312	5.10
Investment securities — loans and receivables	**28,256**	**3.53**	42,617	5.26
Investment securities — available-for-sale	**184,092**	**23.01**	162,170	20.03
Investment securities — held-to-maturity	**544,761**	**68.11**	563,721	69.61
Total	**799,946**	**100.00**	809,820	100.00

— By type of issuers

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Central governments and central banks	**288,692**	**36.09**	309,198	38.18
Public sector entities	**14,504**	**1.81**	17,131	2.11
Banks and other financial institutions	**290,583**	**36.33**	266,805	32.95
Corporate entities	**206,167**	**25.77**	216,686	26.76
Total	**799,946**	**100.00**	809,820	100.00

(2) Liabilities

As at 31 December 2011, the Group's total liabilities increased by RMB610.453 billion or 16.38% from the beginning of the year to RMB4,338.389 billion. Customer deposits increased by RMB415.385 billion from the beginning of the year. This accounted for 75.68% of total liabilities, representing a decrease of 1.25 percentage points from the beginning of the year. Amounts due to other banks and financial institutions increased by RMB137.467 billion and accounted for 19.70% of total liabilities, which is 0.47 percentage point higher than the beginning of the year.

Customer deposits

Customer deposits are the main source of funding for the Group. At the end of the Reporting Period, the Group's customer deposit balance increased by RMB415.385 billion or 14.48% from the beginning of the year to RMB3,283.232 billion. With respect to the Group customer structure, the proportion of corporate deposits increased by 0.31 percentage point from the beginning of the year to 68.48%. The proportion of individual deposits to total deposits decreased by 0.21 percentage point from the beginning of the year to 31.39%. As for deposit terms, the proportion of demand deposits to total deposits decreased by 1.62 percentage points from the beginning of the year to 48.94%, while the proportion of time deposits increased by 1.72 percentage points from the beginning of the year to 50.93%.

The table below illustrates the Group's corporate and individual deposits as of the dates indicated:

(in millions of RMB)

	31 December 2011	31 December 2010
Corporate deposits	**2,248,317**	1,954,936
Includes: Corporate demand deposits	**1,184,123**	1,064,528
Corporate time deposits	**1,064,194**	890,408
Individual deposits	**1,030,605**	906,301
Includes: Individual demand deposits	**422,487**	385,449
Individual time deposits	**608,118**	520,852

3. Analysis on Main Items in Cash Flow Statement

As at 31 December 2011, the Group's cash and cash equivalents increased by RMB52.736 billion from the beginning of the year to RMB209.635 billion.

The cash outflows from operating activities decreased by RMB23.021 billion from the beginning of the year to RMB1.146 billion, which was mainly due to the substantial year-over-year increase of amounts due to other banks and financial institutions.

The cash inflows from investing activities increased by RMB32.833 billion from the beginning of the year to RMB28.045 billion, which was mainly due to the decrease in outflows resulted from the securities investment.

The cash inflows from financing activities increased by RMB7.843 billion from the beginning of the year to RMB26.741 billion, which was mainly due to the bonds issued during the year.

4. *Segment Analysis*

(1) Operating results by geographical segments

The table below illustrates the profit before tax and net operating income from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

	2011		2010	
	Profit before tax	**Net operating income[1]**	Profit before tax	Net operating income[1]
Northern China[2]	**9,481**	**20,076**	8,437	15,829
North-eastern China[3]	**2,511**	**6,097**	1,890	5,030
Eastern China[4]	**23,330**	**47,366**	18,086	38,295
Central and Southern China[5]	**14,051**	**23,383**	6,352	17,849
Western China[6]	**4,807**	**10,166**	3,925	8,221
Overseas[7]	**2,502**	**4,402**	1,997	3,727
Head Office	**8,769**	**16,303**	9,267	15,792
Total[8]	**65,451**	**127,793**	49,954	104,743

Notes:

1. Includes interest income, fee and commission income, dividend income, net income from trading activities, net income arising from the de-recognition of investment securities, income from insurance business, net investment gains/(losses) of an associate and other operating income.

2. Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region (same applies hereinafter).

3. Includes Liaoning Province, Jilin Province and Heilongjiang Province (same applies hereinafter).

4. Includes Shanghai Municipality (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province (same applies hereinafter).

5. Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province (same applies hereinafter).

6. Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region (same applies hereinafter).

7. Includes Hong Kong Branch, New York Branch, Tokyo Branch, Singapore Branch, Seoul Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, Sydney Branch, San Francisco Branch and Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries.

8. Includes non-controlling shareholder interests.

(2) Deposits and loans and advances by geographical segments

The table below illustrates the Group's deposits and loans and advances balances by geographical segments at the dates indicated:

(in millions of RMB)

	31 December 2011		31 December 2010	
	Deposit Balance	**Loans and advances balance**	Deposit Balance	Loans and advances balance
Northern China	**615,680**	**449,585**	549,157	422,830
North-eastern China	**217,617**	**129,009**	199,400	110,034
Eastern China [Note]	**1,280,206**	**1,002,609**	1,108,096	880,314
Central and Southern China	**679,097**	**479,278**	587,970	424,785
Western China	**316,843**	**238,853**	267,576	206,079
Overseas	**172,409**	**186,445**	125,187	147,128
Head Office	**1,380**	**75,971**	30,461	45,757
Total	**3,283,232**	**2,561,750**	2,867,847	2,236,927

Note: Excluding Head Office.

(3) Operating results by business segments

The Group's four main business segments are: corporate banking, retail banking, treasury operations and other businesses. The corporate banking segment is the primary source of income for the Group, and accounted for 71.57% of the Group's profit before tax.

The table below illustrates the Group's total income from external customers and profit before tax from each of the Group's segments for the periods indicated:

(in millions of RMB)

	Total income from external customers		**Profit before tax**
	2011	2010	**2011**
Corporate banking	**135,584**	93,420	**46,844**
Retail banking	**38,599**	29,131	**8,127**
Treasury operations	**40,776**	38,527	**10,033**
Other business	**4,020**	3,172	**447**
Total	**218,979**	164,250	**65,451**

(4) Other financial information

The relevant information disclosed below is set out in accordance with the requirements of the CSRC.

1. Fair value measurement related items

The Group established a market risk management system under the responsibility and leadership of the Board of Directors. It also established an internal control framework based on fair value in order to satisfy the relevant internal control and information disclosure requirements. It also gradually and in an orderly manner, improved the systematic management of its market risk by connecting all the relevant front, middle and back office departments and encompassing fair value valuation, measurement, monitoring and verification. The Group will continue to learn from the experience of its peers and international best practices to further optimise its internal control system in connection with fair value measurement. The Group primarily uses quoted market prices as the fair value of financial instruments traded in active markets. It uses valuation models and observable market parameters or comparison to third party quotes which are reviewed by the relevant risk management departments, to determine the fair value of financial instruments that are not traded in active market.

The table below illustrates the fair value measurement related items of the Group in 2011:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value for the year	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	41,312	277	—	—	42,837
2. Derivative financial instruments	4,731	854	—	—	5,585
3. Investment securities — available-for-sale	162,170	—	(885)	(6)	184,092
Total financial assets	208,213	1,311	(885)	(6)	232,514
Investment property	141	61	—	—	196
Total	208,354	1,192	(885)	(6)	232,710
Total financial liabilities [Note]	(14,379)	(390)	—	—	(18,921)

Note: Only applicable to financial liabilities at fair value through profit or loss.

2. Holdings in foreign currency denominated financial assets and financial liabilities

The table below illustrates the foreign currency denominated financial assets and financial liabilities held by the Group in 2011:

(in millions of RMB)

Item	**Opening balance**	**Gains/ (losses) on change in fair value for the year**	**Cumulative fair value gains/ (losses) recognised in equity**	**Impairment losses (accrued)/ reversed for the year**	**Closing balance**
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	8,391	10	—	—	8,297
2. Derivative financial instruments	1,497	690	—	—	2,187
3. Loans and receivables[1]	278,112	—	—	(1,678)	347,786
4. Investment securities — available-for-sale	34,011	—	(935)	—	29,067
5. Investment securities — held-to-maturity	2,460	—	—	—	1,908
Total of financial assets	324,471	700	(935)	(1,678)	389,245
Total of financial liabilities[2]	(281,787)	(269)	—	—	(380,320)

Notes:

1. Includes cash and balances with central banks, due from other banks and financial institutions, loans and advances to customers and investment securities — loans and receivables and other financial assets.

2. Includes due to other banks and financial institutions, financial liabilities at fair value through profit or loss, customer deposits and other financial liabilities.

(5) Risk Management

In 2011, the Bank continued to be guided by its enterprise risk management plan and adhered to its "stable, balanced, compliance and innovation" risk preference. Within the required framework of external supervision, the Bank manages its key risks efficiently and effectively, balancing its accepted risks with returns and striving to achieve a balanced business development in scale, quality and return. The Bank is committed to compliance management, as well as financial innovation within the compliance framework. It also aims at reaching the standard practice level in risk management for banks from mature markets around the globe, and searching for an efficient development path that offers both growth and scale advantages.

1. Risk management framework

The Bank's Board of Directors has the ultimate responsibility and decision-making authority for the Group's risk management. The Board monitors and controls the bank-wide risk management matters through its underlying Risk Management Committee. The Senior Management has established a "1+3+2" Risk Management Committee system. The committee is dedicated to implementing the Board's risk management strategy, aims at building a system that is strong, comprehensive, standardised, well-coordinated and efficient. It also moved one step further in setting the risk appetite, improving and standardising management process, optimising the working system, and performing evaluations on the effectiveness of risk management function. Three sub-committees have been established under the Enterprise Risk Management Committee. They are the Credit Risk Management Committee, Market and Liquidity Risk Management Committee, and Operational Risk Management and Anti-money Laundering Committee. Two business review committees; the Loan Credit Review Committee and the High-risk Assets Review Committee have also been established. These sub-committees operate under the supervision of the Enterprise Risk Management Committee and will be responsible for monitoring and supervising the execution and implementation of the bank-wide risk management strategy. The Chairman of the Board is responsible for risk prevention, the President is responsible for risk management, the Chief Supervisor is responsible for risk supervision, and the Vice Presidents and the Chief Risk Officer take different roles in the various aspects of enterprise risk management.

The Bank has established an enterprise risk management execution system with adequate reporting lines. The set up of a risk management unit to organise and coordinate the entire Bank's risk management undertakings is an effective way to consolidate the Bank's risk management capabilities. The various departments under the Risk Management Committee take the lead in meeting the relevant risk management requirements at all organisational levels, according to their roles and responsibilities. Through enhancement of its "large and small middle offices" and dual reporting lines, the Bank has established a risk management framework that is equipped with four lines of defence and organised by business lines.

During the Reporting Period, the Bank made steady progress in its "3+1" internal assessment system for its lending business credit cards and Hong Kong branch. It maintained and improved the models and methodologies in measurement of credit, market and operational risks according to changes of its business and risks; widened the application of risk assessment results in the areas of investment direction, approvals, limit management and performance appraisal. It actively cooperated during its regulatory assessment, and moved forward in its compliance with the new Basel capital with substantive interim results achieved.

2. Credit risk management

Departments such as the Corporate Business Department, Retail Credit Department, Credit Management Department and Segment Credit Approval Centre, Credit Risk Management Department, Asset Custody Department and Credit Card Centre, collectively form the main functional departments that are responsible for the Group's credit risk management. Their specific responsibility departments are formulating investment policies, pre-loan assessment and application, credit examination and approval, post-loan monitoring and management.

(1) Risk classification procedures and methodology

According to the regulatory requirements as stipulated in the "Guidelines on Risk-Based Loan Classification" issued by the China Banking Regulatory Commission and the inherent risk of its loans, the Bank implemented a five credit category system that includes pass, special-mention, substandard, doubtful and loss, of which, the latter three categories — substandard, doubtful and loss are regarded as non-performing categories, which is based on the judgement on the possibility of repayment on principle and interest in a timely manner. For corporate credit assets, the Bank has relied on the core regulatory definition as basis and its internal assessment and individual allowances as references to define risk attributes and measurement standards of the five categories in greater detail. The Bank also ensured that sufficient consideration is given to the various factors affecting the quality of credit assets and prudent practices are carried out in risk classification. For retail credit assets (including credit cards), the Bank has uniformly adopted a five category system based on the aging of overdue status and type of guarantees provided.

To further enhance its credit risk management, the Bank has adopted the Basel II advanced internal ratings-based approach, and established a standard of classification based on the probability of default (PD) and Loss Given Default (LGD). This has enabled the Bank to develop a more detailed internal credit risk assessment process covering domestic operations.

(2) Risk management and control polices

① Credit risk management on corporate loans

The Bank established a multi-dimensioned credit management system that encompasses industry, region and customer based on its credit policies and actively aligned with the call by Government on the change of development pattern and economic transformation during the "12th Five-Year Plan" period, together with its goal in adjusting its credit structure. During the Reporting Period, the Bank focused on ensuring the growth rate of loans made to the "Three Rural" sector, small enterprises, and the central and western regions of China not less than the average growth rate of the entire lending portfolio, and boosted support to sectors of consumer consumption, high-end equipment manufacturing and environmental protection. Furthermore, the Bank introduced a certification system for qualified corporate lending approvers, to enhance the Bank's credit risk management capability and standardise its position qualification management system.

The Bank's asset quality continued to improve, with control measures on key risk areas becoming more thorough, as well as notable enhancement in its ability in managing potential and existing risks. The Bank strengthened its post-loan management, by launching the bank-wide post-loan management enhancement project according to the requirements on standardisation and full coverage of complete process and elements of lending transaction, as well as integrating the various processes and tools. In addition, the Bank built a long-term risk investigation mechanism in order to identify potential risk areas on a timely basis by taking adequate positions in responding to external events.

② Credit risk management on retail loans

With the goal of enhancing management of specialised market and retail lending, the Bank introduced an access system and an annual review system of financial guarantee companies, to continuously optimise the monitoring of post-individual lending. As a result, the quality of major categories of personal loans continued to improve. The Bank also established a testing and certification system for qualified retail lending approvers, to promote professional lending practices and build an expert team.

③ Credit risk management on credit card business

The independent credit card centre is responsible for the operation and management of the Bank's credit card business. With its key focus on risk prevention and control, the credit card centre also pays attention to the profitability of its assets to achieve a balance between risk and return. During the Reporting Period, the credit card centre implemented a "smart" sales system to enable full automation on information collection, customer identification, data transmission and systematic risk monitoring process. By changing the front-end sales approach, the Bank promoted the compliance of sales practice, reduced operating costs and effectively prevented various types of frauds during application process.

④ Non-performing loan management

The Bank made special efforts in the recovery of non-performing assets and the disposal of difficult projects, by focusing on key branches and key projects, and through its "watch list" monitoring system. Leveraging cash settlement as the preferred recovery method, the Bank took full use of other means, which included loan restructuring, taking possession of collaterals and loan write-offs. The Bank further improved its collection practice for retail lending, by building a centralised, information-based and standardised risk-resolving platform at Head Office. As such, the Bank effectively enhanced its credit risk management capabilities by taking early actions on potential risks through risk prevention and mitigation measures.

(3) Asset quality and migration status

As at 31 December 2011, the breakdown of the Group's five loan categories as stipulated by the Chinese banking regulatory authorities is as follows:

(in millions of RMB unless otherwise stated)

	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
Categories	**Balance**	**Proportion (%)**	Balance	Proportion (%)	Balance	Proportion (%)
Pass	**2,481,585**	**96.87**	2,149,629	96.10	1,764,060	95.91
Special mention	**58,179**	**2.27**	62,310	2.78	50,245	2.73
Total performing loan balance	**2,539,764**	**99.14**	2,211,939	98.88	1,814,305	98.64
Sub-standard	**9,042**	**0.35**	10,592	0.47	10,756	0.59
Doubtful	**8,450**	**0.33**	9,930	0.45	11,490	0.62
Loss	**4,494**	**0.18**	4,466	0.20	2,763	0.15
Total non-performing loan balance	**21,986**	**0.86**	24,988	1.12	25,009	1.36
Total	**2,561,750**	**100.00**	2,236,927	100.00	1,839,314	100.00

As at 31 December 2011, the Group's loan migration rates in accordance with guidance stipulated by the Chinese banking regulatory authorities is as follows:

Loan migration rate (%)	**2011**	2010	2009
Pass	**1.66**	1.60	1.96
Special mention	**8.34**	35.69	24.22
Sub-standard	**47.86**	45.93	36.46
Doubtful	**24.15**	30.11	5.46

3. Market risk management

The Bank implemented a centralised control framework for its market risk management. The Asset Liability Management Department takes the lead in the Bank's market risk management, while business units such as Financial Markets Department and domestic and overseas branches are the execution units of the Bank's market risk management policies. The Risk Management Department and the Audit Department are responsible for the independent verification of the market risk assessment models and management system, as well as the internal audit of the Bank.

In 2011, with the objective of expanding the application of its risk measures, the Bank continued to enhance its market risk management function. It completed the restructuring of its organisation structure to provide stronger support to its market risk initiatives and established a clearly-structured and full-covered limit management system. With integrated resources, the Bank also consolidated its market risk management function for both the trading and banking books. Facing a more prudent regulatory environment, the Bank further defined the management model of small and large middle offices, as well as the reporting lines and the roles and responsibilities of the treasury and risk management functions. The Bank was able to effectively strengthen its operational process, market risk management and internal control system through appropriate addition or amendment to its existing system and operational procedures, revision of governance structure, and the use of new risk measurement tools. Meanwhile, the Bank constantly reinforced the market risk management information system to expand its operating coverage and range of automatic processing. It also continued to enhance the accuracy and valuation capabilities of its IT system, and assisted the regulatory authorities to complete the examination of its internal market risk model.

(1) Interest rate risk and sensitivity analysis

The Group's asset/liability re-pricing date or maturity date (whichever is earlier) as at 31 December 2011 is as follows:

(in millions of RMB)

	Due in 1 month	Due between 1 month to 3 months	Due between 3 months to 12 months	Due between 1 year to 5 years	More than 5 years	Non-interest bearing	Total
Total assets	2,299,476	455,250	1,185,683	349,186	206,603	114,979	4,611,177
Total liabilities	(2,595,829)	(446,832)	(745,359)	(380,289)	(57,855)	(112,225)	(4,338,389)
Net exposure	(296,353)	8,418	440,324	(31,103)	148,748	2,754	272,788

The table below illustrates the sensitivity of net interest income and other comprehensive income after a 100 basis points movement in interest rate based on the structure of assets and liabilities as at 31 December 2011:

(in millions of RMB)

	31 December 2011		31 December 2010	
	Expected changes in net interest income	**Changes in other comprehensive income**	Expected changes in net interest income	Changes in other comprehensive income
Increase yield rate by 100 basis points	**10,788**	**(3,017)**	8,258	(2,400)
Decrease yield rate by 100 basis points	**(10,788)**	**3,252**	(8,258)	2,553

(2) Foreign currency risk and sensitivity analysis

As at 31 December 2011, the Group's foreign currency risk exposure is as follows:

(in millions of RMB)

	RMB	US dollar (equivalent to RMB)	HK dollar (equivalent to RMB)	Others (equivalent to RMB)	Total
Total assets	4,220,857	269,296	87,641	33,383	4,611,177
Total liabilities	(3,957,411)	(230,932)	(115,539)	(34,507)	(4,338,389)
Net exposure	263,446	38,364	(27,898)	(1,124)	272,788

The table below illustrates the impact of the Group's net profit and other comprehensive income after a 5% movement in RMB against the USD and HKD based on the structure of assets and liabilities as at the reporting dates shown:

(in millions of RMB)

	As at 31 December 2011		As at 31 December 2010	
	Expected change in net (loss)/profit	**Change in other comprehensive income**	Expected change in net (loss)/profit	Change in other comprehensive income
RMB appreciate 5%	**(458)**	**(376)**	(972)	(459)
RMB depreciate 5%	**458**	**376**	1,406	459

4. Liquidity risk management

The Bank has continued to enhance its liquidity risk management to ensure that the Group will have sufficient funds to meet its asset growth targets and repayment obligations on its liabilities regardless whether it is under normal operating environment or under pressure.

In 2011, to manage the liquidity pressure as a result of changes in external environment, the Bank positively adjusted its liquidity management approach by increasing core deposit-to-debt ratio, keeping a stable level of liabilities, and utilising indicators and limits to monitor and manage the entire Bank's liquidity position. The Bank has taken a centralised approach by maintaining an appropriate level of reserve balance with the People's Bank of China, interbank balances and highly liquid debt investments. It also plays an active role in the interbank, money and bond markets in order to maintain its financing abilities in the market place. Furthermore, the Bank monitors its asset maturity structure and adopts a multi-level approach to mitigate liquidity risk.

As at 31 December 2011, the Bank's key liquidity ratios are as follows:

Major regulatory indicators (%)	**At 31 December 2011**	At 31 December 2010	At 31 December 2009
Liquidity ratio (including domestic and foreign currencies)	**35.37**	32.23	27.83
Loan-to-deposit ratio (including domestic and foreign currencies)	**71.94**	72.10	71.97

Note: Calculated based on the guidelines as stipulated by the Chinese banking regulatory authorities.

5. Operational risk management

Based on the completion of various operational risk management projects, the Bank effectively integrated the various operational risk management methodologies and tools into practical business operations. The Bank also carried out self-assessment on operational risk management and internal control, with expanded analyses on risk data, as well as identifying and taking corrective actions on weaknesses.

The Bank performed review and gap analysis on the process and procedures of loan disbursement centre by using the methodologies and tools of operational risk management and business procedure analysis. Through precise role allocation and segregation of duties, the Bank effectively identified key risk areas and made further improvements to relevant business operation processes. The Bank also took control measures during the disbursement process, thus to improve its loan disbursement efficiency and prevent operational risk and ensuring sustainable development of its credit business.

The Bank made further enhancement to its case prevention system and the related IT support. A number of special programmes and initiatives such as "the Year of Implementation", centralisation of risk events and anti-fraud were carried out during the year. A case prevention system described as "system+technology+inspection" was established, through timely detection of risk events, operational risk and misconducts of employees.

6. Anti-money laundering ("AML")

The Bank has successfully built an AML operating system, with the organisation structure as a foundation, the internal control system as a core, and the system platform as a safeguard. Therefore, the Bank was able to carry out its AML activities effectively.

During the Reporting Period, the Bank performed its self-assessment on AML risk, and provided proper supervision and guidance to its branches. With the customer identification problem being resolved, the Bank undertook risk investigations on individual accounts. In addition, the Bank further expanded the scope of self-assessment and incorporated the result of assessment into its daily control activities, making such self-assessment a useful tool for the management of AML risk. The Bank also continuously improved its AML information system, particularly on identification and reporting of large and suspicious transactions and customers, to increase the management effectiveness of AML.

(6) Outlook

Looking ahead, the financial markets around the world will continue to be impacted by the global financial crisis, with the instability and uncertainty of the economic recovery escalating. The Chinese economy has exhibited new characteristics reflecting the particular development stage that it is in, and faces the continuous pressure of "maintaining stable growth and inflation control". In addition, commercial banks in China will face more pressure and challenges from higher supervision standards and more stringent regulatory requirements, which will bring profound changes in the Chinese market. In 2012, the Bank will continue to follow its development strategy and enhance its competitiveness and risk management capabilities, through close monitoring of changes in economic development, monetary policy, regulatory requirements and the market, with primary focus on the following aspects:

i. Carry out timely researches and analyses on the economic and financial trends of the domestic and international markets, and proactively adapt to the changes with flexibility to support growth and development of the Group;

ii. Implement the "BoCom Strategy" and leverage its synergies from international expansion and business collaberation to build a unique and well-positioned wealth management system that offers comprehensive services to customers;

iii. Support the comprehensive transformation of its business, by seizing opportunities in emerging industries and striving to expand its "Blue Ocean" market, to enhance its sustainable development;

iv. Strengthen its overall risk management capabilities, through improvements in the forward-looking aspect and timeliness of risk identification and excellent management results of all risks identified under the complex environment;

v. Promote management and product innovations and improve service quality, by enhancement in customer structure, market competitiveness and brand image.

5. OTHER EVENTS

(1) Human Resource Management

1. Basic information of employees

As at the end of 2011, the Bank had a total of 90,149 employees. Of which, 88,480 employees were based domestically, representing an increase of 5.63% compared with the beginning of the year. Total number of local employees in overseas branches was 1,669.

Among the domestic employees, 36.6 thousand employees hold professional and technical qualifications (accounting for approximately 41.3% of total domestic employees), of which 614 employees hold senior professional and technical qualifications (accounting for approximately 0.7% of total domestic employees), 16,566 employees hold intermediate professional and technical qualifications (accounting for approximately 18.7% of total domestic employees), and 19,405 employees hold preliminary professional and technical qualifications (accounting for approximately 21.9% of total domestic employees).

The average age of the Bank's domestic employees was 33.5 years old, with 44,733 employees under the age of 30 (accounting for approximately 50.5% of total domestic employees), 24,485 employees between the age of 30 and 40 (accounting for approximately 27.7% of total domestic employees), 14,738 employees between the age of 40 and 50 (accounting for approximately 16.7% of total domestic employees), and 4,524 employees above the age of 50 (accounting for approximately 5.1% of total domestic employees).

Among the domestic employees, 5,374 employees possess postgraduate or higher academic degrees (accounting for approximately 6.1% of total domestic employees), 51,591 employees possess undergraduate degrees (accounting for approximately 58.3% of total domestic employees), 25,566 employees possess college diploma (accounting for approximately 28.9% of total domestic employees), and 5,949 employees possess secondary vocational school certificate or lower qualifications (accounting for approximately 6.7% of total domestic employees).

There was a total of 2,840 retired employees under the Bank's pension scheme in 2011.

2. *Remuneration Policy*

The Bank's remuneration is determined with reference to job positions, responsibilities and employee capabilities, and is reflective of market value in the labour market. The Bank continuously assesses and improves the remuneration system to maintain and elevate competitiveness. The Bank implemented a stable remuneration management system to strengthen stability and promote self-discipline among employees to ensure the balance between stability and performance incentives, which aligns remuneration with performance. This will also promote the effectiveness of remuneration in guiding corporate governance and risk control. The purpose was to enhance stable operation and continuous development. The Bank has adopted a total reward policy to effectively manage short-term and long-term incentives. The Bank developed an employee benefits system based on the enterprise annuity programme "to ensure the Bank follow a unified approach and standardise the operation and management" and further enhanced the cohesiveness and creativity of the Bank.

The remuneration of Directors who receive remuneration from the Bank shall be determined based on their performance and the result of the annual evaluation, pursuant to the Articles of Association and the relevant regulations.

3. *Performance Management*

The Bank continuously seeks to optimise its performance management framework and is focused on improving performance evaluation processes at each level, including Head Office, provincial branches and overseas institutions. The Bank further aligned its strategy with business verticals and clearly defined goals and responsibilities. Senior Management and employees were evaluated based on performance goals, capabilities and behaviours. The Bank has developed standardised appraisal and grading system to improve its performance evaluation process. The assessment results are linked with remuneration, career development, education and training, as well as spiritual rewards to optimise the guiding effect of performance management.

(2) Purchase, Sale and Redemption of the Bank's shares

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

(3) Compliance with Code on Corporate Governance Practices

The Group endeavours to establish to high standard of corporate governance. The Group believes that effective corporate governance is crucial to maximising shareholder value. In order to maintain a high standard of corporate governance, the Bank established a responsible, professional and accountable Board, Supervisory Committee and experienced Senior Management. The members of the Board and the Supervisory Committee, except for employee representative supervisors, were elected by the shareholders at the general meetings. The Bank has also established five special committees under the Board, namely the Strategy Committee, the Audit Committee, the Risk Management Committee, the Human Resources and Remuneration Committee and the Social Responsibility Committee. None of the Bank's Directors is aware of any information that would reasonably indicate that the Bank has not, for any time during the period ended 31 December 2011, been in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" (the "**Listing Rules**").

(4) Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Bank adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 of the Listing Rules. The Bank made specific enquiries of all Directors and Supervisors and they all confirmed that they had complied with the required standards of the Model Code during the Reporting Period.

(5) Profit Distribution

The Board proposed to distribute a cash dividend of RMB0.10 (before tax) to A shares and H shares registered members of the Bank and based on the total share capital of 61.886 billion shares as at 31 December 2011. Total distribution of cash dividend was RMB6.189 billion.

Further announcement containing the information in relation to the last registration date and the book closure period for attending the 2011 General Meeting of the Bank to be held in 2012 and for receiving the proposed final dividend for the year ended 31 December 2011, as well as detailed profit distribution plan, will be published by the Bank in due course.

6. FINANCIAL STATEMENTS

(1) Consolidated Statement of Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated)

	Year ended 31 December 2011	2010
Interest income	**190,872**	141,905
Interest expense	**(88,271)**	(56,910)
Net interest income	**102,601**	84,995
Fee and commission income	**22,464**	17,076
Fee and commission expense	**(2,915)**	(2,597)
Net fee and commission income	**19,549**	14,479
Dividend income	**71**	60
Net gains arising from trading activities	**1,401**	677
Net gains arising from de-recognition of investment securities	**123**	568
Insurance business income	**433**	689
Other operating income	**3,617**	3,275
Impairment losses on loans and advances to customers	**(12,479)**	(12,246)
Insurance business expense	**(491)**	(599)
Other operating expense	**(49,372)**	(41,944)
Share of gains/(losses) of an associate	**(2)**	—
Profit before tax	**65,451**	49,954
Income tax	**(14,634)**	(10,782)
Net profit for the year	**50,817**	39,172
Other comprehensive income/(loss)		
Investment securities — available-for-sale		
Changes in fair value recorded in equity	**42**	(1,150)
Changes in fair value reclassified from equity to profit or loss	**(151)**	(452)
Translation difference on foreign operations	**(523)**	(329)
Other comprehensive loss for the year	**(632)**	(1,931)
Total comprehensive income for the year	**50,185**	37,241
Net profit attributable to:		
Shareholders of the Bank	**50,735**	39,042
Non-controlling interests	**82**	130
Total comprehensive income attribute to:		
Shareholders of the Bank	**50,154**	37,123
Non-controlling Interests	**31**	118
Basic earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan) (Restated)	**0.82**	0.66

(2) Consolidated Statement of Financial Position

(in millions of RMB)

	As at 31 December 2011	As at 31 December 2010
ASSETS		
Cash and balances with central banks	**736,999**	586,554
Due from banks and other financial institutions	**443,240**	262,976
Financial assets at fair value through profit or loss	**48,422**	46,043
Loans and advances to customers	**2,505,385**	2,190,490
Investment securities — loans and receivables	**28,256**	42,617
Investment securities — available-for-sale	**184,092**	162,170
Investment securities — held-to-maturity	**544,761**	563,721
Investment in an associate	**298**	—
Property and equipment	**37,017**	33,911
Deferred income tax assets	**7,926**	7,341
Other assets	**74,781**	55,770
Total assets	**4,611,177**	3,951,593
LIABILITIES		
Due to banks and other financial institutions	**854,499**	717,032
Financial liabilities at fair value through profit or loss	**18,921**	14,379
Due to customers	**3,283,232**	2,867,847
Other liabilities	**95,666**	71,997
Current tax liabilities	**4,247**	4,615
Deferred income tax liabilities	**21**	66
Debt securities issued	**81,803**	52,000
Total liabilities	**4,338,389**	3,727,936
EQUITY		
Capital and reserves attributable to shareholders of the Bank		
Share capital	**61,886**	56,260
Capital surplus	**69,465**	69,465
Other reserves	**93,617**	67,107
Retained earnings	**46,834**	29,941
	271,802	222,773
Non-controlling interests	**986**	884
Total equity	**272,788**	223,657
Total equity and liabilities	**4,611,177**	3,951,593

(3) Consolidated Statement of Changes in Equity

(in millions of RMB)

	Share capital	Capital surplus	Other Reserves: Statutory reserve	Other Reserves: Discretionary reserve	Other Reserves: Statutory general reserve	Other Reserves: Revaluation reserve for available-for-sale financial assets	Other Reserves: Translation reserve on foreign operations	Retained earnings	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2010	48,994	44,404	9,949	15,987	18,456	1,001	(989)	26,046	163,848	577	164,425
Net profit for the year	—	—	—	—	—	—	—	39,042	39,042	130	39,172
Changes in fair value recorded in equity	—	—	—	—	—	(1,155)	—	—	(1,155)	5	(1,150)
Changes in fair value reclassified from equity to profit or loss	—	—	—	—	—	(435)	—	—	(435)	(17)	(452)
Translation difference on foreign operations	—	—	—	—	—	—	(329)	—	(329)	—	(329)
Total comprehensive income	—	—	—	—	—	(1,590)	(329)	39,042	37,123	118	37,241
Establishment and acquisition of new subsidiaries	—	—	—	—	—	—	—	—	—	145	145
Acquisition of non-controlling interests	—	(29)	—	—	—	—	—	—	(29)	(16)	(45)
Capital increase in a subsidiary	—	—	—	—	—	—	—	—	—	113	113
Dividends paid	—	—	—	—	—	—	—	(10,525)	(10,525)	(53)	(10,578)
Transfer to reserve	—	—	3,831	15,285	5,506	—	—	(24,622)	—	—	—
Rights issue of A and H shares	7,266	25,090	—	—	—	—	—	—	32,356	—	32,356
Balance at 31 December 2010	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	222,773	884	223,657
Balance at 1 January 2011	**56,260**	**69,465**	**13,780**	**31,272**	**23,962**	**(589)**	**(1,318)**	**29,941**	**222,773**	**884**	**223,657**
Net profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**50,735**	**50,735**	**82**	**50,817**
Changes in fair value recorded in equity	**—**	**—**	**—**	**—**	**—**	**90**	**—**	**—**	**90**	**(48)**	**42**
Changes in fair value reclassified from equity to profit or loss	**—**	**—**	**—**	**—**	**—**	**(148)**	**—**	**—**	**(148)**	**(3)**	**(151)**
Translation difference on foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**(523)**	**—**	**(523)**	**—**	**(523)**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**(58)**	**(523)**	**50,735**	**50,154**	**31**	**50,185**
Establishment of new subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**21**	**21**
Capital increase in a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**120**	**120**
Dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,125)**	**(1,125)**	**(70)**	**(1,195)**
Transfer to reserve	**—**	**—**	**4,991**	**16,968**	**5,132**	**—**	**—**	**(27,091)**	**—**	**—**	**—**
Distributions of stocks dividend	**5,626**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,626)**	**—**	**—**	**—**
Balance at 31 December 2011	**61,886**	**69,465**	**18,771**	**48,240**	**29,094**	**(647)**	**(1,841)**	**46,834**	**271,802**	**986**	**272,788**

(4) Consolidated Statement of Cash Flows

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Cash flows from operating activities:		
Profit before tax:	**65,451**	49,954
Adjustments for:		
Impairment allowances on loans and advances to customers	**12,479**	12,246
Unwind of discount on allowances during the year	**(766)**	(626)
Impairment of finance lease receivables	**190**	175
(Reversal of)/provision for impairment of other receivables	**(20)**	4
Insurance contracts reserve	**219**	599
Impairment of investment securities	**6**	150
Provision for/(reversal of) outstanding litigation and unsettled obligation	**75**	(18)
Depreciation of property and equipment	**3,423**	3,307
Amortisation of rent and renovation	**498**	471
Share of loss of an associate	**2**	—
Losses from fair value hedges	**2**	—
Amortisation of land use rights	**29**	32
Amortisation of intangible assets	**192**	258
Interest income from investment in securities	**(27,282)**	(24,570)
Net gains arising from de-recognition of investment securities	**(123)**	(568)
Net gains on disposal of property and equipment	**(129)**	(39)
Increase in revaluation of investment property	**(61)**	(21)
Interest expense on subordinated debts and other debts issued	**2,257**	1,990
Interest expense on certificates of deposit issued	**7**	—
Fee on debt securities issued	**31**	6
Dividend income	**(71)**	(60)
Operating cash flows before movements in operating assets and liabilities	**56,409**	43,290
Net increase in mandatory reserve deposits	**(156,781)**	(131,623)
Net increase in due from banks and other financial institutions	**(121,192)**	(71,342)
Net increase in financial assets at fair value through profit or loss	**(2,379)**	(16,789)
Net increase in loans and advances to customers	**(326,484)**	(400,517)
Net increase in other assets	**(15,147)**	(17,956)
Net increase in due to banks and other financial institutions	**137,467**	63,860
Net increase in financial liabilities at fair value through profit or loss	**4,077**	5,004
Net increase in due to customers	**415,385**	495,792
Net increase in other liabilities	**22,263**	16,490
Net increase in business tax payable	**825**	487
Income tax paid	**(15,589)**	(10,863)
Net cash used in operating activities	**(1,146)**	(24,167)

(4) Consolidated Statement of Cash Flows (Continued)

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash paid	**—**	(173)
Investment in an associate	**(300)**	—
Purchase of investment securities	**(232,664)**	(357,866)
Disposal or redemption of investment securities	**243,352**	337,106
Dividends received	**71**	60
Interest received from investment securities	**24,587**	24,390
Acquisition of intangible assets and other assets	**(770)**	(915)
Disposal of intangible assets and other assets	**19**	42
Purchase and construction of property and equipment	**(6,846)**	(7,696)
Disposal of property and equipment	**596**	264
Net cash from/(used in) investing activities	**28,045**	(4,788)
Cash flows from financing activities:		
Cash received from rights issue of A and H shares	**—**	32,623
Issuance cost paid for rights issue of shares	**—**	(267)
Proceeds from debt securities issued	**29,803**	2,000
Fee paid on debt securities issued	**(31)**	(6)
Interest paid on debt securities issued	**(1,977)**	(2,012)
Dividends paid to shareholders of the Bank	**(1,125)**	(10,528)
Repayment of debts securities issued	**—**	(3,000)
Capital contribution by non-controlling interest	**141**	186
Acquisition of non-controlling interests	**—**	(45)
Dividends paid to non-controlling interests	**(70)**	(53)
Net cash from financing activities	**26,741**	18,898
Effect of exchange rate changes on cash and cash equivalents	**(904)**	(1,542)
Net increase/(decrease) in cash and cash equivalents	**52,736**	(11,599)
Cash and cash equivalents at the beginning of the year	**156,899**	168,498
Cash and cash equivalents at the end of the year	**209,635**	156,899
Supplementary Information		
Interest received	**185,482**	139,017
Interest paid	**(81,933)**	(49,351)

(5) Notes to the Consolidated Financial Statements

1. *Basis of Preparation and Accounting Estimates and Judgements*

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (the "**IFRSs**") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

In the current year, the Group has applied the following new and revised IFRSs issued:

Amendments to IFRSs	Improvements to IFRSs issued in 2010
Amendments to IAS 32	Classification of Rights Issues
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new or revised IFRSs had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to IFRS 7 and IFRS 9	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to IAS 12	Deferred Tax — Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[6]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

The Directors of the Group anticipate that the application of the amendments to IFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future. However the adoption of IFRS 13 in the Group's consolidated financial statements may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The Group is considering the impacts of IFRS 9 on the consolidated financial statements and the timing of its application. At the same time, the Group is considering the impact of the new and revised standards on consolidation, joint arrangements, associates and disclosure to the consolidated financial statements.

In addition to the above mentioned impacts of IFRSs, the adoption of the above new and revised IFRSs issued but not yet effective will not have significant impact on the operating results, financial condition and comprehensive income of the Group.

2 *Net Interest Income*

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Interest income		
Balances with central banks	**9,336**	6,855
Due from banks and other financial institutions	**7,092**	4,424
Loans and advances to customers	**147,162**	106,056
Investment in debt securities	**27,282**	24,570
	190,872	141,905
Interest expense		
Due to banks and other financial institutions	**(31,449)**	(18,220)
Due to customers	**(54,396)**	(36,628)
Subordinated debts and other debts issued	**(2,257)**	(1,990)
Certificates of deposit issued	**(169)**	(72)
	(88,271)	(56,910)
Net interest income	**102,601**	84,995

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Interest income on listed investments	**7,568**	6,514
Interest income on unlisted investments	**19,714**	18,056
Subtotal	**27,282**	24,570

Interest income includes RMB766 million (2010: RMB626 million) of interest income accrued on impaired loans and receivables.

3 *Fee and Commission Income*

	(in millions of RMB)	
	Year ended 31 December	
	2011	2010 (Restated)
Settlement and agent service	**2,053**	1,392
Bank card	**7,075**	5,193
Investment banking	**6,276**	4,105
Guarantee and commitment	**1,894**	1,456
Management service	**3,170**	2,640
Custodian service	**1,611**	2,049
Others	**385**	241
	22,464	17,076

	(in millions of RMB)	
	Year ended 31 December	
	2011	2010
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	**223**	142
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**750**	707

4 *Impairment losses on loans and advances to customers*

	(in millions of RMB)	
	Year ended 31 December	
	2011	2010
Loans and advances to customers		
— Collectively assessed losses provision	**13,376**	9,100
— Individually assessed losses (reversal)/provision	**(897)**	3,146
	12,479	12,246

5 Income Tax

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Current tax		
— PRC enterprise income tax	**14,717**	11,333
— Hong Kong profit tax	**297**	289
— Overseas taxation	**207**	130
	15,221	11,752
Deferred income tax	**(587)**	(970)
	14,634	10,782

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiaries established in PRC.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group at 25% (2010: 25%). The major reconciliation items are as follows:

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Profit before tax	**65,451**	49,954
Tax calculated at a tax rate of 25%	**16,363**	12,489
Effect of different tax rates in other countries (or regions)	**(1)**	10
Tax effect arising from income not subject to tax [(a)]	**(2,185)**	(1,916)
Tax effect of expenses that are not deductible for tax purposes [(b)]	**457**	199
Income tax expense	**14,634**	10,782

(a) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(b) The expenses that are not tax deductible mainly represent a portion of expenditure, such as entertainment expense etc, which exceed the tax deduction limits in accordance with PRC tax regulations.

6 *Basic Earnings per Share*

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2011	2010 (Restated)
Net profit attributable to shareholders of the Bank (expressed in millions of RMB)	**50,735**	39,042
Weighted average number of ordinary shares in issue (expressed in millions)	**61,886**	58,928
Basic earnings per share (expressed in RMB per share)	**0.82**	0.66

The weighted average number of ordinary shares in issue for the year ended 31 December 2011 and 2010 were adjusted by taking into consideration of stocks dividend issued as described in Note 8 to the Consolidated Financial Statement.

7 *Derivative Financial Instruments*

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

(in millions of RMB)

	Contractual/ notional amount	**Fair values**	
		Assets	**Liabilities**
As at 31 December 2011			
Foreign exchange contracts	**571,381**	**3,785**	**(3,392)**
Interest rate contracts	**326,370**	**1,800**	**(2,601)**
Total amount of derivative instruments recognised	**897,751**	**5,585**	**(5,993)**

(in millions of RMB)

	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2010			
Foreign exchange contracts	549,996	3,450	(3,397)
Interest rate contracts	235,596	1,281	(1,753)
Total amount of derivative instruments recognised	785,592	4,731	(5,150)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency

(unit: millions)

	As at 31 December 2011	As at 31 December 2010
RMB	**474,914**	386,299
US dollar	**339,866**	326,146
HK dollar	**54,499**	40,076
Others	**28,472**	33,071
Total	**897,751**	785,592

Hedge accounting

As at 31 December 2011, included in the derivative financial instruments above are those designated as hedging instruments by the Group and Bank as follows (31 December 2010: Nil):

(in millions of RMB)

	Contractual/ notional amount	**Fair values**	
		Assets	**Liabilities**
As at 31 December 2011			
Derivative financial instruments designated as hedging instruments in fair value hedges			
— Interest rate swaps	7,000	—	(465)
Total	7,000	—	(465)

The Group uses interest rate swaps to minimise its exposure to fair value changes of its fixed-rate bond investments by swapping fixed-rate bond investments from fixed rates to floating rates. The interest rate swaps and the corresponding bond investments have the same terms and management of the Group consider that the interest rate swaps are highly effective hedging instruments.

The following table shows the profit and loss effects in the fair value hedges:

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Losses on hedging instruments	**(465)**	—
Gains on hedged items attributable to the hedge risk	**463**	—
Net losses from fair value hedges	**(2)**	—

8 *Dividends*

(in millions of RMB)

	Year ended 31 December	
	2011	2010
Stocks and cash dividends paid to shareholders of the Bank in the year	**6,751**	10,528

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(i) Making up cumulative losses from prior years, if any;

(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(iii) Allocations to statutory general reserve;

(iv) Allocations to the discretionary reserve if approved by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at the Annual General Meeting.

Based on the proposal on 30 March 2011 at the 5th meeting of the 6th session of the Board of Directors and approved at the Annual General Meeting on 28 June 2011, the Bank transferred a total of RMB5,132 million to the statutory general reserve. A profit appropriation based on the total number of shares outstanding of 56.26 billion shares as at 31 December 2010 was also approved as follows: (i) a ten-for-one stocks dividend, amounting to RMB5,626 million, (ii) cash dividend of RMB0.20 (before tax) per every 10 shares, amounting to RMB1,125 million, and (iii) a transfer of RMB16,968 million to discretionary reserve. The registration date for the above stocks and cash dividends is 18 July 2011. The actual distribution date is 18 August 2011.

On 28 March 2012, the 12th meeting of the 6th session of the Board of Directors of the Bank proposed to transfer a total of RMB4,808 million to the statutory general reserve and RMB9,917 million to discretionary reserve in year 2012. A cash dividend of RMB0.10 (before tax) per share, amounting to RMB6,189 million based on the total number of shares outstanding of 61.886 billion shares as at 31 December 2011 was also proposed. These proposals are still subject to the approval by the Shareholders' Meeting of the Bank.

9 *Financial guarantees and credit related commitments, other commitments and contingent liabilities*

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group has committed to its customers:

(in millions of RMB)

	As at 31 December 2011	As at 31 December 2010
Letters of guarantees	**218,012**	198,573
Letters of credit	**82,755**	51,224
Acceptances	**447,943**	346,646
Other commitments with an original maturity of		
— Under 1 year	**292,123**	210,037
— 1 year and over	**21,360**	32,018
	1,062,193	838,498

Capital expenditure commitments

(in millions of RMB)

	As at 31 December 2011	As at 31 December 2010
Capital expenditure commitments for buildings	**3,463**	2,846

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

	(in millions of RMB)	
	As at 31 December 2011	As at 31 December 2010
Within 1 year	**1,392**	1,291
Beyond 1 year and not more than 5 years	**3,474**	3,010
More than 5 years	**1,207**	981
	6,073	5,282

Commitments on security underwriting and bond acceptance

	(in millions of RMB)	
	As at 31 December 2011	As at 31 December 2010
Outstanding balance on security underwriting	**35,660**	56,810
Outstanding balance on bond acceptance [(a)]	**25,974**	27,094

(a) The Bank is entrusted by the MOF to underwrite certain Certificate Type Treasury Bonds. The investors of Certificates Type Treasury Bonds have early redemption right while the Bank has the obligation to buy back those Certificates Type Treasury Bonds. The redemption price is the principal value of the Certificates Type Treasury Bond plus unpaid interest till redemption date.

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificates Type Treasury Bond on a back-to-back basis but will pay interest and principal at maturity.

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals has been made. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

	(in millions of RMB)	
	As at 31 December 2011	As at 31 December 2010
Outstanding claims	**1,508**	1,384
Provision for outstanding litigation	**561**	477

10 Segmental Analysis

The Group's Senior Management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the Senior Management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

As the Group's major revenue is derived from interest and the Senior Management relies primarily on net interest income to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

The measure of segment profit or loss reviewed by the Group's Senior Management is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the segments.

Operating segment information

(in millions of RMB)

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2011									
Assets									
Cash and balances with central banks	10,260	4,178	25,816	13,199	6,033	657,900	19,613	—	736,999
Due from banks and other financial institutions	2,991	812	34,733	8,471	2,341	350,435	43,457	—	443,240
Financial assets at fair value through profit or loss	—	—	—	—	—	38,421	10,001	—	48,422
Loans and advances to customers	438,679	125,396	979,286	467,734	233,053	75,970	185,267	—	2,505,385
Investment securities — loans and receivables	316	171	429	526	162	26,652	—	—	28,256
Investment securities — available-for-sale	9	—	1,435	680	14	158,062	23,892	—	184,092
Investment securities — held-to-maturity	—	—	90	—	—	542,948	1,723	—	544,761
Investment in an associate	—	—	—	—	—	298	—	—	298
Other assets	485,461	115,985	628,775	340,433	138,402	86,372	50,865	(1,726,569)	119,724
Total assets	937,716	246,542	1,670,564	831,043	380,005	1,937,058	334,818	(1,726,569)	4,611,177
Liabilities									
Due to banks and other financial institutions	(275,198)	(18,555)	(296,817)	(93,647)	(34,114)	(52,168)	(84,000)	—	(854,499)
Financial liabilities at fair value through profit or loss	—	—	—	—	—	(3,681)	(15,240)	—	(18,921)
Due to customers	(615,680)	(217,617)	(1,280,206)	(679,097)	(316,843)	(1,380)	(172,409)	—	(3,283,232)
Debts securities issued	—	—	(2,000)	—	—	(76,000)	(3,803)	—	(81,803)
Other liabilities	(28,781)	(7,534)	(59,882)	(30,045)	(16,645)	(1,630,370)	(53,246)	1,726,569	(99,934)
Total liabilities	(919,659)	(243,706)	(1,638,905)	(802,789)	(367,602)	(1,763,599)	(328,698)	1,726,569	(4,338,389)
Net on-balance sheet position	18,057	2,836	31,659	28,254	12,403	173,459	6,120	—	272,788
Acquisition cost of property and equipment and intangible assets	(1,348)	(592)	(2,826)	(1,137)	(1,106)	(572)	(144)	—	(7,725)

(in millions of RMB)

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
Year ended 31 December 2011									
Interest income[1]	60,469	15,756	111,450	53,102	24,673	58,216	6,182	(138,976)	190,872
Interest expense[2]	(43,320)	(10,538)	(73,475)	(33,863)	(15,742)	(46,970)	(3,339)	138,976	(88,271)
Net interest income[3]	17,149	5,218	37,975	19,239	8,931	11,246	2,843	—	102,601
Fee and commission income	2,957	599	7,624	3,446	1,100	5,519	1,219	—	22,464
Fee and commission expense	(694)	(72)	(1,009)	(489)	(155)	(281)	(215)	—	(2,915)
Net fee and commission income	2,263	527	6,615	2,957	945	5,238	1,004	—	19,549
Dividend income	—	—	33	—	—	18	20		71
Net gains/(losses) arising from trading activities	386	97	742	255	54	(283)	150	—	1,401
Net gains/(losses) arising from de-recognition of investment securities	—	—	5	—	—	(36)	154	—	123
Insurance business income	—	—	433	—	—	—	—	—	433
Share of gains/(losses) of an associate	—	—	—	—	—	(2)	—	—	(2)
Other operating income	278	255	1,563	932	236	122	231	—	3,617
Total operating revenue	20,076	6,097	47,366	23,383	10,166	16,303	4,402	—	127,793
Impairment losses/(reversals) of on loans and advances to customer	(3,766)	(702)	(6,350)	(131)	(1,349)	3	(184)	—	(12,479)
Insurance business expense	—	—	(491)	—	—	—	—	—	(491)
Other operating expense	(6,829)	(2,884)	(17,195)	(9,201)	(4,010)	(7,537)	(1,716)	—	(49,372)
Profit before tax	9,481	2,511	23,330	14,051	4,807	8,769	2,502	—	65,451
Income tax	(2,439)	(649)	(6,049)	(3,635)	(1,240)	(132)	(490)	—	(14,634)
Net profit for the year	7,042	1,862	17,281	10,416	3,567	8,637	2,012	—	50,817
Depreciation and amortisation	(555)	(291)	(1,323)	(694)	(403)	(755)	(121)	—	(4,142)
[1]Include									
External interest income	28,288	7,991	63,146	29,125	14,092	43,030	5,200	—	190,872
Inter-segment interest income	32,181	7,765	48,304	23,977	10,581	15,186	982	(138,976)	—
[2]Include									
External interest expense	(22,260)	(4,698)	(32,344)	(13,628)	(5,773)	(6,673)	(2,895)	—	(88,271)
Inter-segment interest expense	(21,060)	(5,840)	(41,131)	(20,235)	(9,969)	(40,297)	(444)	138,976	—
[3]Include									
External net interest income	6,028	3,293	30,802	15,497	8,319	36,357	2,305	—	102,601
Inter-segment net interest income	11,121	1,925	7,173	3,742	612	(25,111)	538	—	—

(in millions of RMB)

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2010									
Assets									
Cash and balances with central banks	11,359	4,253	26,619	12,528	9,534	514,532	7,729	—	586,554
Due from banks and other financial institutions	16,094	3,744	40,842	12,580	2,679	155,913	31,124	—	262,976
Financial assets at fair value through profit or loss	—	—	—	—	—	36,013	10,030	—	46,043
Loans and advances to customers	415,245	106,752	862,313	412,956	201,467	45,752	146,005	—	2,190,490
Investment securities — loans and receivables	437	296	702	728	266	40,188	—	—	42,617
Investment securities — available-for-sale	10	—	1,831	712	33	135,936	23,648	—	162,170
Investment securities — held-to-maturity	—	—	—	120	—	561,339	2,262	—	563,721
Other assets	349,701	108,793	493,816	253,899	103,876	83,573	22,096	(1,318,732)	97,022
Total assets	792,846	223,838	1,426,123	693,523	317,855	1,573,246	242,894	(1,318,732)	3,951,593
Liabilities									
Due to banks and other financial institutions	(224,500)	(20,267)	(262,683)	(86,710)	(29,819)	(32,987)	(60,066)	—	(717,032)
Financial liabilities at fair value through profit or loss	—	—	—	—	—	(3,495)	(10,884)	—	(14,379)
Due to customers	(549,157)	(199,400)	(1,108,096)	(587,970)	(267,576)	(30,461)	(125,187)	—	(2,867,847)
Debts securities issued	—	—	(2,000)	—	—	(50,000)	—	—	(52,000)
Other liabilities	(16,866)	(6,428)	(35,705)	(15,928)	(18,849)	(1,260,875)	(40,759)	1,318,732	(76,678)
Total liabilities	(790,523)	(226,095)	(1,408,484)	(690,608)	(316,244)	(1,377,818)	(236,896)	1,318,732	(3,727,936)
Net on-balance sheet position	2,323	(2,257)	17,639	2,915	1,611	195,428	5,998	—	223,657
Acquisition cost of property and equipment and intangible assets	(1,537)	(827)	(2,145)	(2,030)	(726)	(1,282)	(58)	—	(8,605)

(in millions of RMB)

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
Year ended 31 December 2010									
Interest income[1]	43,148	11,574	80,174	38,562	18,027	42,906	3,760	(96,246)	141,905
Interest expense[2]	(29,684)	(7,204)	(48,979)	(23,736)	(10,764)	(31,322)	(1,467)	96,246	(56,910)
Net interest income[3]	13,464	4,370	31,195	14,826	7,263	11,584	2,293	—	84,995
Fee and commission income	2,390	412	5,209	2,327	729	4,878	1,131	—	17,076
Fee and commission expense	(659)	(57)	(904)	(395)	(112)	(208)	(262)	—	(2,597)
Net fee and commission income	1,731	355	4,305	1,932	617	4,670	869	—	14,479
Dividend income	—	—	22	—	—	23	15	—	60
Net gains/(losses) arising from trading activities	423	81	511	233	52	(949)	326	—	677
Net gains arising from de-recognition of investment securities	3	—	78	53	13	388	33	—	568
Insurance business income	—	—	689	—	—	—	—	—	689
Other operating income	208	224	1,495	805	276	76	191	—	3,275
Total operating revenue	15,829	5,030	38,295	17,849	8,221	15,792	3,727	—	104,743
Impairment (losses)/reversal of on loans and advances to customers	(1,746)	(547)	(4,945)	(3,935)	(952)	3	(124)	—	(12,246)
Insurance business expense	—	—	(599)	—	—	—	—	—	(599)
Other operating expense	(5,646)	(2,593)	(14,665)	(7,562)	(3,344)	(6,528)	(1,606)	—	(41,944)
Profit before tax	8,437	1,890	18,086	6,352	3,925	9,267	1,997	—	49,954
Income tax	(1,393)	(331)	(4,796)	(1,935)	(1,116)	(806)	(405)	—	(10,782)
Net profit for the year	7,044	1,559	13,290	4,417	2,809	8,461	1,592	—	39,172
Depreciation and amortisation	(524)	(306)	(1,255)	(687)	(373)	(799)	(124)	—	(4,068)
[1]Include									
External interest income	20,498	5,596	45,803	21,349	10,273	34,865	3,521	—	141,905
Inter-segment interest income	22,650	5,978	34,371	17,213	7,754	8,041	239	(96,246)	—
[2]Include									
External interest expense	(15,193)	(3,415)	(20,748)	(9,805)	(3,948)	(2,573)	(1,228)	—	(56,910)
Inter-segment interest expense	(14,491)	(3,789)	(28,231)	(13,931)	(6,816)	(28,749)	(239)	96,246	—
[3]Include									
External net interest income	5,305	2,181	25,055	11,544	6,325	32,292	2,293	—	84,995
Inter-segment net interest income	8,159	2,189	6,140	3,282	938	(20,708)	—	—	—

Geographical information

(in millions of RMB)

	Year ended 31 December			
	2011		2010	
	Revenue	**Non-current assets[1]**	Revenue	Non-current assets[1]
PRC	**217,225**	**39,912**	163,127	36,928
Other countries	**1,754**	**113**	1,123	84
Total	**218,979**	**40,025**	164,250	37,012

Note 1: Non-current assets include property and equipment, land use rights, intangible assets, prepaid rental expenses, leasehold improvement, investment property and goodwill etc. It excludes financial assets, deferred income tax assets and rights arising under insurance contracts.

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, retail banking, treasury and other classes of business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises individual loans, individual deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment securities, and securities sold under repurchase agreements. The "Others" business segment mainly comprises items which cannot be categorised in the above business segments. The details of business information are as follows:

(in millions of RMB)

	Year ended 31 December 2011				
	Corporate	**Retail**	**Treasury**	**Others and unallocated**	**Total**
External net interest income	59,113	9,182	33,997	309	102,601
Internal net interest income/ (expense)	10,715	12,985	(23,700)	—	—
Net interest income	69,828	22,167	10,297	309	102,601
Net fee and commission income	7,945	9,850	212	1,542	19,549
Dividend income	—	—	18	53	71
Net gains/(losses) arising from trading activities	561	15	1,058	(233)	1,401
Net gains arising from de-recognition of investment securities	—	—	123	—	123
Insurance business income	—	—	—	433	433
Other operating income	2,011	555	9	1,042	3,617
Impairment losses on loans and advances to customers	(10,943)	(1,536)	—	—	(12,479)
Insurance business expense	—	—	—	(491)	(491)
Other operating expense					
— depreciation and amortisation	(1,335)	(1,944)	(23)	(840)	(4,142)
— others	(21,223)	(20,980)	(1,661)	(1,366)	(45,230)
Share of gains/(losses) of an associate	—	—	—	(2)	(2)
Profit before tax	46,844	8,127	10,033	447	65,451
Capital expenditure	2,509	3,674	43	1,499	7,725
Total assets	2,084,131	526,910	1,981,784	18,352	4,611,177
Total liabilities	(2,364,483)	(1,046,492)	(920,738)	(6,676)	(4,338,389)

(in millions of RMB)

	Year ended 31 December 2010				
	Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income	44,765	7,538	32,458	234	84,995
Internal net interest income/ (expense)	10,510	11,543	(22,053)	—	—
Net interest income	55,275	19,081	10,405	234	84,995
Net fee and commission income/ (expense)	6,072	7,165	(20)	1,262	14,479
Dividend income	—	—	15	45	60
Net gains arising from trading activities	330	10	337	—	677
Net gains arising from de-recognition of investment securities	—	—	513	55	568
Insurance business income	—	—	—	689	689
Other operating income	1,246	1,342	16	671	3,275
Impairment losses on loans and advances to customers	(10,671)	(1,575)	—	—	(12,246)
Insurance business expense	—	—	—	(599)	(599)
Other operating expenses					
— depreciation and amortisation	(1,308)	(1,974)	(24)	(762)	(4,068)
— others	(17,745)	(17,546)	(1,427)	(1,158)	(37,876)
Profit before tax	33,199	6,503	9,815	437	49,954
Capital expenditure	2,771	4,219	42	1,573	8,605
Total assets	1,841,104	433,832	1,660,526	16,131	3,951,593
Total liabilities	(2,041,397)	(917,319)	(762,398)	(6,822)	(3,727,936)

There were no large transactions with a single external customer that the Group mainly relied on.

7. PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT

This results announcement is extracted from the 2011 Annual Report prepared in accordance with the IFRSs. The full report is published on the Hong Kong Stock Exchange HKExnews website www.hkexnews.hk, as well as the Bank's website www.bankcomm.com. The 2011 Annual Report, which is prepared in accordance with the PRC GAAP, will be available on the Shanghai Stock Exchange website www.sse.com.cn and the Bank's website www.bankcomm.com. Investors who are interested to understand the Annual Results in details should refer to the full Annual Report. The Annual Report, prepared in accordance with the IFRSs, is expected to be dispatched to the holders of H shares in April 2012.

By order of the Board
Bank of Communications Co., Ltd.
Hu Huaibang
Chairman of the Board

Shenzhen, the PRC
28 March 2012

As at the date of this announcement, the Directors of the Bank are Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Zhang Jixiang, Mr. Hu Huating*, Ms. Du Yuemei*, Mr. Wong Tung Shun, Peter*, Ms. Fung Yuen Mei, Anita*, Mr. Ma Qiang*, Mr. Lei Jun*, Dr. Li Ka-cheung, Eric#, Mr. Gu Mingchao#, Mr. Wang Weiqiang#, Mr. Peter Nolan#, Mr. Chen Zhiwu#, and Mr. Choi Yiu Kwan#.*

* *Non-executive Directors*
\# *Independent Non-executive Directors*